

## Introduction and Background

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In March 2015, the Department for Work and Pensions set out new rules for the governance of Defined Contribution (DC) pension schemes. Trustees are required to produce an annual statement, signed by the Chair, setting out how they believe they have met with required governance standards. This statement covers the twelve month period ending 31 December 2022.

This statement has been produced by Independent Governance Group (“IGG”), in its capacity as Trustee of The Family Action Pension Scheme (‘the Scheme’).

I hereby confirm that I, Helen Frisby, on behalf of IGG, have been appointed as Chair of the Trustee for the purpose of completing this statement and I am authorised to sign this statement on behalf the Trustee.

This statement is produced in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended (the Regulations). The statement covers only the part of the Scheme to which the relevant legislative requirements apply - namely the DC Section. It does not cover any other part of the Scheme, other than where stated.

In accordance with the Regulations, this statement describes how the Trustee believes it has met the statutory governance standards in relation to the Scheme’s DC Section, covering the requirements for:

1. A default investment strategy
2. Processing core financial transactions
3. Calculating member borne charges and transaction costs paid by members, including an illustration of their cumulative effect
4. Trustee ‘knowledge and understanding’

The statement also contains a ‘Value for Members’ assessment - an assessment of how the Scheme’s DC Section, including member borne charges and transaction costs in respect of the default investment strategy and the Scheme generally, represent value for members.

The DC Section is closed to new members and therefore ongoing contributions. Contributions to the DC Section ended in 2015. At the time of producing this statement, the DC Section comprises two deferred members. The Trustee, in conjunction with the sponsoring employer, continues to review the operational efficiency and ongoing management of the DC Section, including potential alternatives to the current structure. This includes whether the interest of members may be better served and whether members are likely to experience better value through the transfer of existing funds to an alternative arrangement.

### 1. Default investment strategy

Although the Scheme is not used as a qualifying scheme for automatic enrolment purposes, the Scheme offers a default investment strategy for members who do not make investment choices. The Trustee is responsible for setting and monitoring the investment arrangements used for the Scheme’s default strategy. A copy of the most recent Statement of Investment Principles (‘SIP’) signed by the Trustee on 13 September 2021 can be found in Appendix B. The SIP covers the Trustee’s approach and views on investment governance and objectives. The SIP also takes account of the Trustee’s views on Social, Environmental Governance (‘ESG’) considerations.

Whilst this Statement incorporates details of the fund used within the ‘growth’ phase of the default investment strategy, the Multi-Asset (formerly Consensus) Fund, it does not currently incorporate details (such as charges and transaction costs) for the funds used within the ‘consolidation’ phase of the default investment strategy, or the funds that are available to members on a self-select basis. This is because no members are currently investing in these funds and they have therefore not yet been established. Investment selections made by members mean that 100% of the assets held within the Scheme’s DC Section are currently invested within the Multi-Asset (formerly Consensus) Fund.

## DC Chair's Statement (continued)

The current default investment strategy, along with other self-select funds available to members, continues to reflect that implemented following a review undertaken in 2010. The default investment strategy adopted ensures that members' needs were considered (noting that no employees had joined the DC Section at the time of the review) and that the levels of risk and returns were consistent with the aims and objectives of the default investment strategy. These are to best ensure that members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions paid into their individual accounts and the timescale over which those contributions were paid.

The default investment strategy is a 'lifestyled' strategy ('the Lifestyle Option') targeting an annuity benefit outcome at retirement. In addition, a range of individual funds are available on a self-select basis for those members who don't feel that the Lifestyle Option is right for them, either from an investment and / or a benefit outcome perspective. The funds currently available on a self-select basis are:

Global Equity Fixed Weights 50:50 Index Currency Hedged Fund

Global Equity Ethical Fund

Multi-Asset (formerly Consensus) Fund

Pre-Retirement Fund

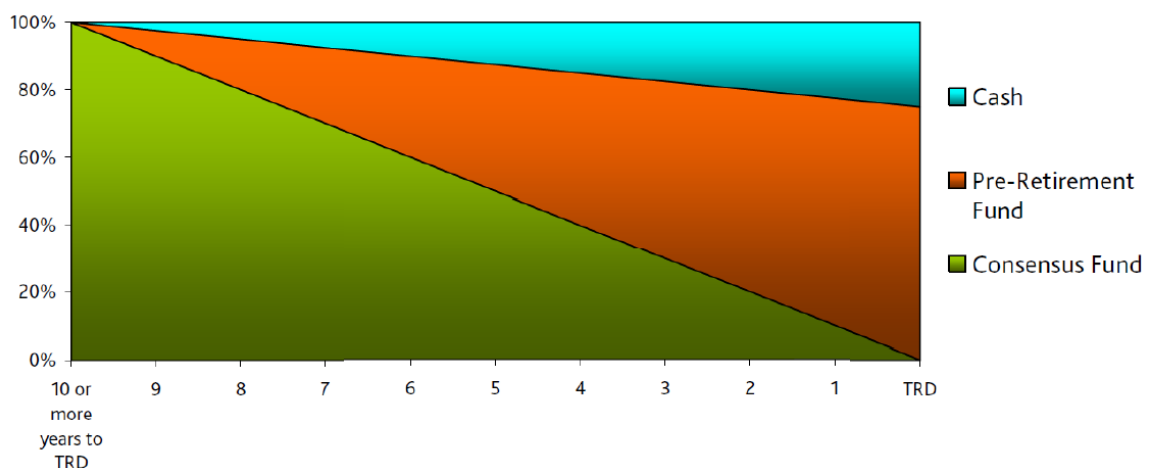
Cash Fund

All funds are managed by Legal & General Investment Management (LGIM). As 100% of the assets held within the Scheme's DC Section are currently invested within the Multi-Asset (formerly Consensus) Fund, the additional funds outlined have yet to be created by LGIM for the Scheme's DC Section.

During the growth phase, which spans the time from a member joining the Scheme until ten years before their target retirement date (age 65 in the absence of an earlier or later date selected by the member), the primary objective of the default investment strategy is to maximise returns over the long term at an acceptable level of risk. During this period the member will be invested in the Legal & General Multi-Asset (formerly Consensus) Fund. During the Consolidation Phase (the 10 years leading up to a member's target retirement date), the member's assets are gradually switched to alternative funds with the aim of both reducing risk whilst also targeting an annuity or pension benefit outcome at retirement.

This strategy can be summarised as follows (noting, as mentioned above, that the Consensus Fund is now the Multi-Asset (formerly Consensus) Fund):

**Lifestyle Matrix**



## **DC Chair's Statement (continued)**

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On a quarterly basis, the Trustee receives and reviews Performance Monitoring Reports covering the funds that comprise the default investment strategy (to the extent the Trustee has a holding, which as above is currently restricted to the Multi-Asset (formerly Consensus) Fund. These are formally reviewed at scheduled Trustee meetings held during the year. The performance of the default arrangement was last reviewed at the Trustee Meeting held on 26 May 2022.

The Trustee confirms it has considered the returns of the Multi-Asset (formerly Consensus) Fund and concluded that these are consistent with the Trustee's aims and objectives for the default investment strategy.

Details of the investment reviews undertaken, including evidence, rationale and recommendations are available on request. This is also covered in the Value for Members assessment and statement, which can be found in Appendix A.

The Trustee acknowledges the regulatory guidance and expectations for the default investment strategy to be reviewed, at a minimum on a three-yearly basis. Whilst the Trustee reviews the performance and manager on an ongoing basis as outlined above, the ongoing suitability of the strategy has not been formally reviewed since 2010. This is because the Trustee, in conjunction with the sponsoring employer, has been investigating whether or not the interest of members may be better served through the transfer of existing funds to an alternative arrangement. The Trustee will be considering what remedial action is required during 2023 and will provide an update in next year's statement.

The Trustee intends to review the default investment strategy or reach a decision on the possible transfer of existing funds to an alternative arrangement by the end of 2023.

## **2. Processing core financial transactions**

As noted in the Introduction, the DC Section is closed to new members and ongoing contributions and currently comprises two deferred members. As such, there have been no financial transactions (including investment of contributions, transfers in and out of the Fund to members and / or their beneficiaries, and transfers/switches of assets between different investments in the Scheme) during the period in question. Financial transactions across the Scheme more generally have been processed promptly and accurately as evidenced by regular administration reporting, provided by Cartwright Benefit Consultants Limited ("Cartwright") on a calendar quarterly basis.

Agreed service levels (SLAs) are in place between the Trustees and Cartwright, with each administration report providing a full reconciliation of work undertaken and timescales achieved against agreed service levels for each 'job type'. These typically cover, but are not limited to, ensuring that the following activities are processed promptly and accurately:

- retirement quotations;
- transfers into and out of the Scheme;
- leaver statements;
- investment switches.

For activities completed outside of the agreed service level, specific details of cause and actions taken, as well as resolution, are reviewed and remedial action is taken where required.

The Trustee is satisfied that for the period in question service levels have been met.

## **DC Chair's Statement (continued)**

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In accordance with the ongoing administration reporting arrangements, controls are in place to monitor and ensure that core financial transactions are and continue to be processed promptly and accurately. These, along with service levels and any service issues are reviewed quarterly and at each Trustee meeting. This includes utilisation of a workflow management system to monitor Scheme and member related activities and related performance against service levels and forward planning of regular annual activities and events. The monitoring of administration and core financial transactions is also reflected on the Scheme's Risk Register and is a standing item on the agenda for Trustee meetings.

During the year ending 31 December 2022, the Trustee was not aware of any material issues that negatively impacted the processing of core financial transactions.

Further scrutiny of transactions, as well as reporting and controls, can be found within the Scheme's Annual Report & Accounts.

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

Aside from investment management charges and investment transaction costs, all other costs associated with running the Scheme's DC Section are borne by the employer and therefore have no bearing on member charging. However, for completeness we have referred to these as part of our assessment of Value for Members, which can be found in Appendix A.

The charges and transaction costs (these being the costs borne by members) for The Multi-Asset (formerly Consensus) Fund are recorded in Appendix C. Examples of the cumulative effect of costs and charges on member funds are set out in Appendix D. As explained in Section 1, the additional funds outlined have yet to be established for the Scheme's DC Section.

In preparing Appendices C and D of this Statement, the Trustee has had regard to statutory guidance published by the Department for Work and Pensions and has not deviated from that guidance.

The Annual Management Charge applicable to the Multi-Asset (formerly Consensus) Fund falls significantly below the Charge Control cap of 0.75% per annum stipulated by pension scheme regulations. Transaction costs are generally minimal and can sometimes be negative if the offset (from an anti-dilution levy or swinging price) exceeds the other transaction costs.

All charges and transaction cost details have been provided by LGIM and cover the period 1 January 2022 to 31 December 2022. In preparing this statement, we were able to obtain all relevant charge and transaction cost information from LGIM.

The Trustee is comfortable that the member borne charges are competitive, offer value for money and are kept under a continuous review. As noted in Section 1 above, we receive regular Performance Monitoring Reports on our full range of investments, from Cartwright.

### **4. Trustee 'knowledge and understanding'**

The Trustee spends an appropriate amount of time running the DC Section in relation to the size and complexity of the arrangements. IGG is a firm of professional independent trustees that is represented by Helen Frisby as Lead Director, and Paul Sherman as a Trustee Manager, bringing a high degree of pensions experience, knowledge and expertise.

## **DC Chair's Statement (continued)**

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### ***Trustee knowledge and understanding requirements***

The Trustee is required to be conversant with the Scheme's main documents and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable them to properly exercise their functions. The Trustee addresses the requirements through a combination of training and taking professional advice.

The Trustee demonstrates it is conversant with the Scheme's main documents through ongoing management of the Scheme.

### ***Ongoing professional trustee commitment to continuous learning***

All IGG Directors have completed the Pension Regulator's Trustee Toolkit assessment modules (which assess competence in a number of key areas of pensions knowledge, including pensions law, investment and the role of trustees). The majority of Trustee Directors and Trustee Managers at IGG including Helen Frisby (Director) and Paul Sherman (Trustee Manager) are accredited professional pension trustees with Association of Professional Pension ("APPT"), a professional body which requires an ongoing commitment to fitness and proprietary assessment, a minimum of 25 hours' training per annum and passing professional skills examinations.

### ***Training Plans – group and individual***

All IGG Directors partake in an ongoing mandatory training programme, which is designed to ensure that our knowledge is kept up to date. Each Trustee Director maintains a personal record of both group and individual training, which is documented and logged on a quarterly basis. In doing so, Trustee Directors identify any knowledge gaps that they may have and request training accordingly.

The IGG internal training programme is set with consideration of current pensions topics or upcoming changes to pensions regulations and disclosure requirements of which there have been many in the period of this Statement and more to come. At the beginning of each year, IGG directors are asked to provide input into the annual training programme based on the anticipated needs of their schemes and upcoming pensions changes or deadlines. These sessions were delivered by external specialists in their respective fields or led by internal experts. After each IGG training session, attendees are asked to provide feedback on the quality and effectiveness of the training. If individuals have attended particularly effective training sessions externally, these may be repeated for the group.

On an individual level, IGG directors evaluate their training needs on an annual basis to consider any knowledge gaps, especially on any technical and governance issues, and specifically seek out training opportunities to fill those gaps or refresh our knowledge. This external training is delivered through a mix of face-to-face learning at seminars, webinars and personal technical reading of relevant pensions industry publications and papers.

This is not an exhaustive list but shows that individually and collectively, IGG as a professional corporate trustee is committed to continuous improvement through relevant and extensive training to provide quality governance to this scheme.

### ***Access to professional advice***

The Trustee consults with professional advisers as and when required, for example on consultancy, governance, investment and legal matters. Its professional advisers alert the Trustee to, and where appropriate provide training on, relevant changes to pension and trust law.

The Trustee's professional advisers provide support in relation to understanding and application of the Scheme's documents and policies.

## **DC Chair's Statement (continued)**

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### **Summary**

The Trustee continuously reviews the service standards being provided by the Scheme and the proposition of the DC Section made available to members.

The Trustee appreciates that low cost does not necessarily mean better value, so in doing so they have also reviewed a range of benefits such as quality of customer service, member communication and support, the efficiency of administration services, robustness of scheme governance, the investment options available and the management and performance of the funds that comprise the investment options, in the context of agreed investment objectives.

It is our view that the Scheme's DC Section does not represent good Value for Members and the Trustee attaches its Value for Members assessment and statement for the Scheme.

As outlined within the Introduction, the Trustee, in conjunction with the sponsoring employer, continues to review the operational efficiency and ongoing management of the DC Section, including potential alternatives to the current structure.

Signed:

***Signed by Helen Frisby 25 July 2023***

Helen Frisby  
Trustee Director  
Independent Governance Group

Date: 25 July 2023

**Signed for on behalf of the Trustee by Helen Frisby, on behalf of IGG, in my capacity as Chair of the Trustee of The Family Action Pension Scheme**

## **Appendix A**

**See Value for Money Assessment and Statement for the year ended 31 December 2022DC Chair's Statement (continued)**

## **Appendix B**

### **Statement of Investment Principles – August 2021**

#### **Introduction**

The Trustee of the Family Action Pension Scheme ("the Scheme") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and 2019. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. In preparing this Statement the Trustee has consulted the Employer on the Trustee's investment principles. This Statement replaces all previous Statements.

Whilst the Trustee is solely responsible for the Scheme's investment strategy, the Trustee has consulted Family Action (the "Employer") on both the investment decisions taken by the Trustee and this Statement's content.

The Scheme includes a DB (Defined Benefit) Section and a DC (Defined Contribution) Section. The DC Section was set up in 2011 but only two members ever joined. DC contributions ended in 2015 and all assets are currently invested within the Legal & General Multi-Asset Fund.

#### **Governance**

The Trustee makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers. The process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement an investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making its investment decisions and reviewing this Statement, the Trustee obtained and considered the written advice of Cartwright Benefit Solutions Limited, whom the Trustee reasonably believes to be qualified by its ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of such schemes. Cartwright Benefit Solutions Limited is also authorised under the Financial Services and Markets Act 2000 to provide investment advice to the Trustee.

#### **Defined Contribution Section**

##### **Investment Objectives**

The Trustee recognises that their ultimate objective is to best ensure that members of the Scheme are able to retire on a reasonable level of pension taking into account the contributions paid into their individual accounts and the timescale over which those contributions were paid.

##### **Investment Strategy**

The Trustee will offer a sufficient fund range to satisfy the risk and return combinations reasonable for most members.

To this end, the Trustee has in place a range of investment options that it believes will allow members to strike appropriate balances between long term needs for capital growth and shorter term volatility of returns, especially in the period approaching retirement.

## **DC Chair's Statement (continued)**

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The Trustee has designed a Lifestyle investment option. The Lifestyle investment option is an automated switch facility allowing members to pre-select an investment strategy, which will move their accrued funds into lower risk investments as retirement approaches.

The 10 year Lifestyle option will be used as the default option that member's contributions will be applied. The default is used in the event that a member fails to positively make an investment decision.

### **Investment Mandates**

The Trustee has appointed Legal & General Investment Management (the "Investment Manager") to manage the Defined Contribution assets of the Scheme. The Investment Manager is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Investment Manager via a written agreement, including the realisation of investments.

The details of the Defined Contribution investment arrangements are set out in Appendix I.

### **Risk Management and Measurement**

The Trustee is aware of and pay close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment options offered to members provide for adequate choice and diversification both within and across different asset classes.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via a pooled vehicle.
- The documents governing the Investment Manager's appointment include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The Trustee recognises that the use of active management involves a risk that the assets do not achieve the expected return. For this reason and to reduce management costs investments are passive except for the Cash fund which is actively managed.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicle.
- Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

### **Corporate Governance**

The Trustee wishes to encourage best practice in terms of activism. The Trustee accepts that by using pooled investment vehicle the day-to-day application of voting rights will be carried out by the investment manager. Consequently, the Trustee expects the Scheme's investment managers to adopt a voting policy that is in accordance with best industry practice

### **Defined Benefit Section**

#### **Investment Objectives**

The Trustee is required to invest the Scheme's assets in the best interest of members, and its main objectives with regard to investment policy are:

- To achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- To ensure that sufficiently liquid assets are available to meet benefit payments as they fall due; and
- To consider the interests of the Employer in relation to the size and volatility of the Employer's contribution requirements.

The Trustee understands, following discussions with the Employer, that it is willing to accept a degree of volatility in the company's contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

In practice any change in contribution would be done following discussions and agreement between the Trustee and Employer as and when required.



## DC Chair's Statement (continued)

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### Risk Management and Measurement

The Trustee is aware of and pays close attention to a range of risks inherent in investing the assets of the Scheme. The Trustee believes that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustee further believes that the current investment strategy is appropriate given the Scheme's liability profile. The Trustee's policy on risk management is as follows:

- The primary investment risk faced by the Scheme arises as a result of a mismatch between the Scheme's assets and its liabilities. This is therefore the Trustee's principal focus in setting investment strategy, taking into account the nature and duration of the Scheme's liabilities.
- The Trustee recognises the investment risk taken by the Scheme is underwritten by the Employer because, should investment returns not be achieved as expected over the longer-term, the Employer will ultimately be required to increase its contributions to enable all beneficiaries to be paid in full. The Trustee regularly monitors the Employer's covenant and considers the level of the Scheme's investment risk in light of the strength of the Employer's covenant.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more short-term volatility in the Scheme's funding position. The Trustee has taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustee aims to ensure the asset allocation strategy in place results in an adequately diversified portfolio. Due to the size of the Scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme.
- The Trustee recognises that, where appropriate, the use of active management involves a risk that the assets do not achieve the expected return. However, it believes this risk is outweighed by the potential gains from successful active management, in particular in regions or asset classes where this potential is greater than others. Therefore, the Scheme's assets are managed through a mixture of active and passive management which may be adjusted from time to time.
- The Trustee recognises that a certain level of liquidity is required within the investment strategy in order to supplement any cash held in the Trustee's bank account and Employer contributions to pay beneficiaries. Some asset classes can be relatively illiquid and/or volatile, creating disinvestment delays or crystallising potentially short-term investment losses. The Trustee regularly reviews the Scheme's income and outgo in the context of the overall liquidity of the invested assets (ie this allows a proportion of the Scheme's assets to be relatively illiquid if deemed appropriate). The Trustee also has an investment/disinvestment cash flow policy (see 'Managing scheme cashflow' on page 6) to help to ensure beneficiaries are paid as and when their benefits fall due. The selection, retention, and realisation of investments within each investment fund is delegated to the relevant investment manager.
- The Trustee recognises that derivatives tend to involve leverage to magnify the exposure to certain financial instruments. All the derivatives used by the Scheme either contribute to the reduction of risk or are used for efficient portfolio management. The diversified derivative counter-party exposure and the collateralisation process are delegated to, and kept under regular review by, each investment manager.
- The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether the current risk profile remains appropriate.

## DC Chair's Statement (continued)

### Investment Strategy

Given its investment objectives the Trustee has agreed to the asset allocation detailed in the table below. The Trustee believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Strategic Asset Allocation (%)
Dynamic Diversified Growth Fund 1	20.0
Dynamic Diversified Growth Fund 2	20.0
Unconstrained Fixed Income Fund 1	10.0
Unconstrained Fixed Income Fund 2	12.0
<b>Growth Assets</b>	<b>62.0</b>
Liability Driven Investment (LDI) Equity Linked Real	8.0
Liability Driven Investment (LDI) Credit Linked Real	20.0
Liability Driven Investment (LDI) Nominal	10.0
Risk Reducing Assets	38.0
<b>Total:</b>	<b>100.0</b>

DGF 1: Insight's Broad Opportunities Fund; DGF 2: BNY Mellon Real Return Fund

UFIF 1: BNY Mellon Global Dynamic Bond Fund; UFIF 2: TwentyFour Absolute Return Credit Fund

The Trustee regularly reviews the performance of the investment strategy, including: the performance of the Scheme's assets against the Scheme's liabilities, the actual asset allocation against the strategic asset allocation, each investment fund's performance against its benchmark index and the investment/disinvestment cash flow policy.

The Trustee requires investment managers to report on the turnover of securities within invested portfolios and on the associated transaction costs, in order to assess whether such activity, and changes in it, appears reasonable, taking account of the nature of the fund concerned.

The Trustee will formally review and obtain written investment advice on the suitability of the investment strategy at least every three years in line with the timing of each triennial actuarial valuation. These reviews will include the ongoing suitability of the retention of the investment funds used.

Certain parts of the investment strategy may be reviewed more frequently if required.

### Managing LDI collateral calls

In the event that the LDI funds need to make cash calls in order to decrease the leverage (may occur when interest rates rise) in the Scheme or release money to increase leverage (this may occur when interest rates fall) the BNY Mellon Global Dynamic Bond Fund and TwentyFour Absolute Return Credit Fund will be used in equal amounts.

### Managing scheme cashflow

Any cash flows for investment/disinvestment (excluding LDI collateral calls) will be directed towards and taken from the BNY Mellon Global Dynamic Bond Fund. If and when the BNY Mellon fund is exhausted, cash flow disinvestments will be taken from the TwentyFour Absolute Return Credit Fund.

Further details on the investment funds can be found in the Appendix.

## **DC Chair's Statement (continued)**

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### **Expected Return**

The Trustee expects the return on assets to be consistent with the investment objectives and investment strategy outlined above.

The Trustee recognises that over the short term performance may deviate significantly from long term returns. Any expectation of long term investment performance will generally be higher than the estimate used for the actuarial valuation of the Scheme's liabilities. For this purpose a more prudent estimate of returns will generally be used, as agreed by the Trustee on the basis of advice from the Scheme Actuary.

### **Platform Provider**

The Trustee has appointed Mobius Life Limited ("the Platform Provider") to administer all of the assets of the Scheme. The Platform Provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

### **Investment Mandates**

The Trustee has selected Insight Investment ("Insight"), BNY Mellon Investment Management Limited ("BNY Mellon"), TwentyFour Asset Management ("TwentyFour") and BMO Global Asset Management Ltd ("BMO"), as the appointed Investment Managers ("the Investment Managers") to manage the assets of the Scheme via a single policy with the Platform Provider. The Investment Managers are themselves regulated under the Financial Services and Markets Act 2000.

The Trustee monitors the performance of the Investment Managers on a quarterly basis. This monitoring is contained in a report provided by their advisor.

The Trustee has set performance objectives, including time periods, consistent with the investment strategy set out in this statement.

### **Investment Manager Remuneration**

The Trustee monitors the remuneration, including incentives, that is paid to their Investment Managers and how they reward their key staff who manage client funds, along with how the pay and incentives motivate employees who manage client funds.

As part of the monitoring that the Trustee carries out on a regular basis, they should ensure that this policy is line with their investment strategy.

### **Investment Manager Philosophy and Engagement**

The Trustee monitors the Investment Managers' processes for assessing the businesses they invest in, and whether business performance over the medium to long-term involves a holistic look beyond purely accountancy measures. The Trustee considers if the Investment Managers are incentivised to make decisions on a short-term basis or on a medium to long-term basis and whether this coincides with the business assessments. The Trustee is conscious of whether the Investment Managers are incentivised by the agreement with the Trustee to engage with the investee business and to what extent any engagement focuses on improving medium to long-term performance.

### **Investment Manager Portfolio Costs**

The Trustee will monitor costs of buying, selling, lending and borrowing investments and it will look to monitor the costs breakdown annually, as long as the Investment Managers provides these costs using the Cost Transparency Initiative template. They will also ensure that, where appropriate, their Investment Managers monitor the frequency of transactions and portfolio turnover. If there are any targets then it will monitor compliance with these targets.

## **DC Chair's Statement (continued)**

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### **Compliance with Myners' Principles**

In October 2008 the Government published the results of its consultation on revisions to the Myners' principles in response to recommendations made by the National Association of Pension Funds (NAPF) in 2007. This takes the form of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance:

- Principle 1: Effective decision making
- Principle 2: Clear objectives
- Principle 3: Risk and liabilities
- Principle 4: Performance measurement
- Principle 5: Responsible ownership
- Principle 6: Transparency and Reporting

The Trustee believes it complies with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the Principles where the Trustee believes this to be justified.

### **Both Sections**

#### **Financially material considerations over the Scheme's time horizon**

The Trustee believes that its main duty, reflected in its investment objectives, is to protect the financial interests of the Scheme's members. The Trustee believes that Environmental, Social and Governance ("ESG") considerations (including but not limited to climate change) and stewardship in the selection, retention and realisation of their investments is an integral part of this duty and can contribute to the generation of good investment returns. Legislation requires that the Trustee forms a view of the length of time that it considers is needed for the funding of future benefits by the investments of the Scheme. The Trustee recognises that this is a DB scheme closed to accrual with an ageing membership and a DC Section with two deferred members. Nevertheless, the Trustee has formed the view that the appropriate time horizon of this scheme is expected to be over 15 years, which gives plenty of scope for ESG considerations to be financially material.

The Trustee has elected to invest in pooled funds and cannot, therefore, directly influence the ESG policies, including the day-to-day application of voting rights, of the funds in which it invests. However, the Trustee will consider these policies in all future selections and will seek to deepen their understanding of their existing managers' policies by reviewing these at least annually. In cases where it is dissatisfied with a manager's approach it will take this into account when reviewing them. It is also keen that all its managers are signatories of the UN Principles of Responsible Investment, which is currently the case.

The Trustee believes that stewardship is important, through the exercising of rights (including voting rights) attaching to investments. The Trustee is keen that its managers can explain when, and by what practical methods, the managers monitor and engage with relevant persons about relevant matters in this area. It will be liaising with its managers (including its passive managers) to obtain details of the voting behaviour (including the most significant votes cast on the Trustee's behalf). The Trustee is also keen that its managers are signatories of the UK Stewardship Code, which is currently the case.

The Trustee is aware that ESG and stewardship considerations involve an ongoing process of education for itself and engagement with its investment managers. To that end it dedicates time regularly to the discussion of this topic and intends to review and renew its approach periodically with the help of their investment consultants, where required. Consequently, the Trustee expects the Scheme's Investment Managers to have effective ESG policies (including the application of voting rights) in place and looks to discuss the investment managers' ESG policies with them when the managers attend Trustee's meetings.

The Trustee will monitor the voting being carried out by Investment Managers and custodians on its behalf. It will do this by receiving reports from its Investment Managers which should include details of any significant votes cast and proxy services that have been used.

Non-financial matters, including members' views are currently not taken into account.

## **DC Chair's Statement (continued)**

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### **Employer-Related Investments**

The Trustee's policy is not to hold any direct employer-related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

### **Fee Structures**

The Platform Provider is paid a management fee on the basis of assets under management which includes the underlying investment manager's management fees. The Investment Consultant is paid on a time-cost, fixed fee or other basis, as agreed from time-to-time between the Trustee and the Investment Consultant.

### **Review of this Statement**

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed on behalf of the Trustee of the Family Action Pension Scheme

***Signed by Helen Frisby 13 September 2021***

Helen Frisby

Director - Independent Trustee Services Limited

Date: 13 September 2021

***Signed by Hetal Kotecha 13 September 2021***

Director - Independent Trustee Services Limited

Date: 13 September 2021

## DC Chair's Statement (continued)

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### **Appendix 1 – Defined Contribution Investment Arrangements**

#### **Lifestyle Fund**

The Family Action Default Strategy invests in a single fund during the accumulation period of the Default Lifestyle Strategy, with monies being gradually switched to alternative funds with the aim of both reducing risk whilst also targeting an annuity or pension benefit outcome at retirement. The accumulation period spans the time between when members join the Scheme up until 10 years from their normal retirement date when the protection period then starts.

#### **Accumulation Period**

During the accumulation period, fund is invested as follows:

Asset Class	Investment Manager	Fund Name	Active /Passive Management
Multi-Asset	LGIM	Multi-Asset (formerly Consensus) Fund	Passive

The primary objective during the accumulation period is to maximise returns over the long term at an acceptable level of risk.

The fund will invest in a range of assets which may include equities, bonds, cash and listed infrastructure, private equity and global real estate companies. Exposure to each asset class will primarily be through investing in passively managed funds. The fund is expected to have a level of risk which is equivalent to two thirds of the volatility of a global equity portfolio, over the long-term.

#### **Protection Period**

During the protection period (the 10 years leading up to normal retirement date), assets are gradually switched to bonds and cash, such that at the normal retirement date 25% of the member's assets are held in cash with the remaining 75% in bonds. At the normal retirement date, assets will be allocated to the following funds:

Fund	Asset Class	Allocation
LGIM Pre-Retirement Fund	Bonds	75.0%
LGIM Cash Fund	Cash	25.0%
Total		100.00%

The Family Action Default Strategy invests in the above fund and has been designed to meet the perceived needs and characteristics of the majority of members.

The above funds have yet to be created by LGIM for the Scheme's DC Section.

## **DC Chair's Statement (continued)**

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### **Self-Selected Funds**

The self-select funds are made available to members who want to control the decision on which individual funds to invest in over time. You cannot combine the self-select funds with the lifestyle fund. However you can create your own version of a lifestyle fund by using other combinations to those shown above.

Funds currently available on a self-select basis include:

Global Equity Fixed Weights 50:50 Index Currency Hedged Fund

Global Equity Ethical Fund

Multi-Asset Fund

Pre-Retirement Fund

Cash Fund

All funds are managed by Legal & General Investment Management (LGIM). As 100% of the assets held within the Scheme's DC Section are currently invested within the Multi-Asset Fund (one member on a self-select basis and the other member as the Multi-Asset Fund forms the growth phase of the default investment strategy), the additional funds outlined have yet to be created by LGIM for the Scheme's DC Section

## DC Chair's Statement (continued)

### Appendix 2 – Defined Benefit Investment Arrangements

The Trustee has appointed the following Investment Managers to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset Class	Investment Manager	Fund Name	Management style	Strategic Allocation %
<b>Growth Assets</b>				<b>62.0</b>
Dynamic Diversified Growth Fund	Insight	Broad Opportunities Fund	Active	20.0
	BNY Mellon	Real Return Fund	Active	20.0
Absolute Return Bonds	BNY Mellon	Global Dynamic Bond Fund	Active	10.0
	TwentyFour	Absolute Return Credit Fund	Active	12.0
<b>Matching Assets</b>				<b>38.0</b>
LDI Equity Linked Real	CT	Equity Linked Real Dynamic LDI Fund	Mechanistic	8.0
LDI Credit Linked Real	CT	Credit Linked Real Dynamic LDI Fund	Mechanistic	20.0
LDI Nominal	CT	Nominal Dynamic LDI Fund	Mechanistic	10.0
<b>Total</b>				<b>100.0</b>

The Equity Linked Real Dynamic LDI Fund provides protection against changes in both longer-term interest rates and longer-term inflation expectations, whilst also providing synthetic exposure to global equity markets via exchange traded futures. The Credit Linked Real Dynamic LDI Fund provides protection against changes in both longer-term interest rates and longer-term inflation expectations, whilst also providing synthetic exposure to credit spreads via credit default swaps. The Nominal Dynamic LDI Fund provides protection against changes in longer-term interest rates only. It has been estimated that the Scheme's liabilities are around 70% sensitive to changes in longer-term inflation expectations.

The LDI fund employs leverage (ie the level of protection provided against changes in longer-term interest rate/inflation expectations is greater than the amount invested). Should the leverage within the LDI fund deviate substantially from the target leverage level, CT will rebalance the LDI fund back to the target leverage level. These LDI leverage rebalancing events could result in money being requested for, or released from, the LDI fund. The Trustee has established a default investment/disinvestment cash flow policy for these LDI leverage rebalancing events (see 'Managing LDI collateral calls' section).



## **DC Chair's Statement (continued)**

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A hedge ratio is a measure of the level of protection the Scheme has against changes in longer-term interest rates/inflation expectations. Both of these risks originate from the nature of the Scheme's liabilities. For example, with an interest rate hedge ratio of 40%, if a fall in longer term interest rates results in a £10m increase in the liability value, then the protection assets are expected to rise by £4m to compensate (within practical constraints and ignoring some potential residual basis risks). This simplified example assumes financial market conditions are otherwise stable (for example, no change in equity markets). In practice, due to other risk factors, the overall asset value may rise by more or less than stated (or fall).

The strategic asset allocations to LDI are likely to fluctuate over time, possibly significantly, due to the combination of changes in financial market conditions and the leverage within the funds. Crucially, it is the hedge ratios that drive the size of the LDI allocations, not the other way around, as the LDI allocations are whatever is needed to achieve the desired hedge ratios.

The management style of the LDI fund is described as "mechanistic" because whilst the LDI fund actively switches between different gilts/swaps according to an algorithm as the relative yield differences change, the investment manager maintains the same hedge ratio and is not actively taking views on the future direction of markets. The equity exposure is achieved through equity futures.

The Trustee may (in accordance with the Trust Deed and Rules) purchase an annuity or assurance contract to fund any benefits payable under the Scheme.

## DC Chair's Statement (continued)

### Appendix C

#### Charges and transaction costs for the default investment strategy for the year ending 31 December 2022

The annual charges applicable to Multi-Asset (formerly Consensus) Fund can be summarised as follows:

Fund	Charges *	Transaction costs **
LGIM Multi-Asset Fund	0.2587%	0.0495%

#### Notes

\* Includes the Annual Management Charge (AMC), plus various other expenses including index licensing fees, legal fees, administration, marketing, regulation, auditing.

\*\* Transaction costs that applied (or may have potentially applied) to the investment funds available to members. Note that a negative transaction cost can refer to things like anti-dilution measures put in place by the manager to protect existing investors. It is effectively a 'saving' to existing members and reduces the impact of other charges. As it is an implicit, calculated cost, it would ordinarily be reflected within the unit price.

Actual and potential transaction costs disclosed by Legal & General Investment Management Limited include:

- Broker commission
- Transaction taxes
- Implicit costs
- Entry/exit charges
- Other transaction costs
- Indirect transaction taxes
- Indirect broker commission
- Indirect implicit costs
- Indirect entry/exit charges
- Indirect other transaction costs
- Indirect transaction costs - external funds
- Anti-dilution offset
- Indirect anti-dilution offset

Implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the price of the instrument at previous market close. This is consistent with the implicit cost calculation methods allowable prior to 2018 under PRIIPS guidance, which allows firms to assume there is no intra-day data available.

For any transactions occurring in 2022, the arrival price of each trade will be captured and used to calculate the implicit transaction cost ('slippage cost'). The arrival price of a trade is the mid-market price of an asset at the time the order is placed in the market.

Indirect transaction costs have been calculated assuming a static fund structure as at 31 December 2022.

For any funds which hold an investment managed by a third party, the transaction costs provided by the third party manager are represented as an indirect external fund transaction cost. Where transaction cost information was not made available.

All charges and transaction costs have been provided by LGIM.

## DC Chair's Statement (continued)

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### Appendix D

**Projected Pension pot showing effect of charges and transaction costs for the default strategy, produced in accordance with DWP guidance**

<b>Projected pension fund in today's money – we have assumed a starting value of £15,000, a and a 45-year-old member, but other ages can be assessed using the following table</b>		
	<b>Default Strategy – Multi-Asset Fund</b>	
<b>Years</b>	<b>Before costs and charges deducted</b>	<b>After costs and charges deducted</b>
1	£15,029	£14,999
3	£15,088	£14,996
5	£15,147	£14,993
10	£15,295	£14,985
15	£15,445	£14,978
20	£15,596	£14,971

**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. The starting pot size is assumed to be £15,000, which is approximately the average value within the DC Section.
  3. Inflation is assumed to be 2.5% each year
  4. The projection does not allow for any future contributions.
  5. The projected investment return, before charges and transaction costs, is 0.20% above inflation.
- Values shown are illustrative only and are not guaranteed.