



# **Paterson Enterprises Pension Scheme**

## **DC Section Chair's Statement**

1 August 2019 to 31 July 2020

# DC Section Chairman's Statement regarding DC Governance

1 August 2019 – 31 July 2020

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## Introduction

The purpose of this statement is for the Trustee of the Paterson Enterprises Pension Scheme ("the Trustee"), through the Chairman of the Paterson Enterprises Pension Scheme ("the Scheme"), to confirm how the Scheme is meeting the minimum governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations 2015 ("the Regulations"). This statement covers the period from 1 August 2019 to 31 July 2020. Summaries of the required standards and details of how the Scheme is meeting them are given in the sections below.

These governance standards relate to defined contribution ("DC") benefits, also commonly referred to as money purchase benefits. The Scheme's DC arrangements comprise the Scheme's Defined Contribution Section ("the DC Section"). The DC Section includes additional voluntary contributions ("AVCs") for members of the Scheme's Defined Benefit Section ("the DB Section").

This Chair's Statement was drafted by Barnett Waddingham and has been updated to 31 July 2020 by XPS Pensions Group.

## Default arrangement

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The Trustee has determined that the lifestyle strategy is the DC Section's default investment strategy. This strategy (the aims of which are set out in the Trustee's Statement of Investment Principles):

- Invests in the Global Equity 50:50 Index Fund up to 10 years from retirement;
- Switches gradually to the Over 5 year Index Linked Fund and the Cash Fund as members approach their retirement age

The default investment strategy has been designed for members looking to take the maximum tax free cash at retirement (i.e. 25%) and use the balance of their fund to purchase an annuity. A copy of the Scheme's latest Statement of Investment Principles, is included with this statement and this provides further detail about the default investment strategy.

The Trustee regularly reviews the Scheme's default investment arrangements, their performance, and the extent to which they have achieved their aims and objectives. No detailed review of the DC Section's investments was carried out in the period 1 August 2019 to 31 July 2020, however, this is an area that the Trustee continues to review on an annual basis and ensures it is discussed at each Trustee meeting.

The Trustee carried out an internal review of the default arrangement as part of discussions during the October 2018 Trustee meeting. This included considering whether the aims and objectives of the strategy were consistent with the Scheme's Statement of Investment Principles. On the basis of the performance of the manager against the benchmark (allowing for charges), the Trustee is comfortable that this continues to be the case.

Discussions at the 24 October 2018 meeting were considered to constitute a final review of the default strategy and the value for money being offered to DC members.

The information relating to the default investment arrangement and the costs and charges applicable to investment options under the Scheme contained in this statement are published at <https://www.morrislubricants.co.uk/>.

## Core financial transactions

The governance standards require that the Trustee must ensure that core financial transactions are processed promptly and accurately. Core financial transactions include (but are not limited to):

- Investment of Scheme contributions
- Transfers of assets relating to members into and out of the Scheme
- Transfers of assets relating to members between different investments within the Scheme
- Payments from the Scheme to, or in respect of, members.

The Trustee delegates responsibility for the administration of the Scheme. The Trustee has service level agreements (SLAs) in place with the administrators. The administrators undertake to ensure that 95% of the core financial transactions are processed within the SLAs set out below:

Core financial transactions	SLA
Contribution files	Investment within 5 working days of receipt of the data/payment
Transfer payments (in or out)	Transfer in payment invested within 5 working days of receipt and transfer out payments within 10 working days
Investment switches	Within 5 working days of the day of the instruction was received
Payments out of the Scheme	10 working days

To assist in meeting SLAs regarding cash management, the Scheme's cash is held in a pooled banking arrangement. This allows the Scheme administrators to ensure cash levels are monitored daily.

Each quarter a summary of all tasks undertaken is provided by the administrator to the Trustee and reviewed. Steps are then taken to improve the accuracy and timeliness of any transactions if necessary. There were no statutory disclosure breaches in the Scheme during the period 1 August 2019 to 31 July 2020.

In addition, the internal controls of XPS Administration as the administrators of the DC section are subject to external audit and the latest Assurance Report on Internal controls (AAF 01/06 and ISAE 3402) is available on the XPS Pensions Group website: <https://www.xpsgroup.com/media/1716/xps-administration-psal-aaf-report.pdf>.

In light of the above, the Trustee considers it meets the requirements for processing core financial transactions as specified in the regulations.

### Charges and transaction costs

Members bear charges deducted from the funds in which their DC benefits are invested. The charges differ between the investment funds available. A charge cap of 0.75% pa is imposed by the Regulations.

### Charges in relation to the funds used by the default investment strategy

The charges for each of the funds used by the default investment strategy are set out below.

Fund	Provider	Member-borne charge
Global Equity 50:50 Index Fund	Legal and General	0.18% pa
Over 5 Year Index-Linked Fund	Legal and General	0.10% pa
Cash Fund	Legal and General	0.125% pa

## Charges in relation to the additional funds

The Trustee also makes available a range of additional funds, details of which are available on request from the Scheme's administrators. The charges for each of these funds are set out below.

Fund	Provider	Member-borne charge
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	Legal and General	0.15% pa
Asia Pacific Developed Equity Index Fund	Legal and General	0.29% pa
Global Emerging Markets Index Fund	Legal and General	0.48% pa
Ethical UK Equity Index Fund	Legal and General	0.21% pa
European Equity Index Fund	Legal and General	0.26% pa
Japan Equity Index Fund	Legal and General	0.23% pa
North America Equity Index Fund	Legal and General	0.23% pa
Overseas Bond Index Fund	Legal and General	0.15% pa
UK Equity Index Fund	Legal and General	0.13% pa

In addition to the charges above, members bear transaction costs in relation to the funds in which their DC benefits are invested. This is a complex area and information about transaction charges is not readily available across the investment management industry as a whole. The Trustee has however asked for information on transaction costs applied to the DC Section's investment options over the reporting period. The following table provides details of the transaction costs quoted and the overall impact on costs for the funds used in the DC arrangements.

Fund Name	Explicit Charges	Transaction Costs	Total Charge
Global Equity 50:50 Index Fund	0.18% pa	0.02% pa	0.20% pa
Over 5 Year Index-Linked Fund	0.10% pa	0.13% pa	0.23% pa
Cash Fund	0.125% pa	0.00% pa	0.125% pa
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	0.15% pa	0.04% pa	0.19% pa
Asia Pacific Developed Equity Index Fund	0.29% pa	0.31% pa	0.60% pa
Global Emerging Markets Index Fund	0.48% pa	0.10% pa	0.58% pa
Ethical UK Equity Index Fund	0.21% pa	0.06% pa	0.27% pa
European Equity Index Fund	0.26% pa	0.02% pa	0.28% pa
Japan Equity Index Fund	0.23% pa	0.02% pa	0.25% pa
North America Equity Index Fund	0.23% pa	0.10% pa	0.33% pa
Overseas Bond Index Fund	0.15% pa	0.00% pa	0.15% pa
UK Equity Index Fund	0.13% pa	0.03% pa	0.16% pa

The method and process for collecting transaction cost data (known as 'slippage') can result in 'negative costs'. This can happen, for example when buying an asset, if the actual price paid ended up being lower than the mid-market price at the time of placing the order, for example because something happened in the market that pushed the price of the asset down.

## Cost & Charge Illustrative Examples

The Trustee has produced illustrations in line with February 2018 guidance from the Department for Work & Pensions entitled "Cost and charge reporting: guidance for trustees and managers of occupational schemes". These illustrations are set out below, and are designed to cater for representative cross-sections of the membership of the Scheme's DC arrangements. For each individual illustration, each savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund the member is invested in and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

To determine the parameters used in these illustrations, the Trustee has analysed Scheme membership data relevant to the reporting period of this statement and ensured that the illustrations take into account the following:

- A representative range of pot sizes
- A representative range of real terms investment returns, including the lowest, the highest and the most popular (by number of members).
- A representative range of costs and charges, including the lowest and the highest.
- A representative range of the expected period of Scheme membership, including the approximate duration that the youngest Scheme member would take to reach Normal Retirement Age.

The Trustee has determined not to include future contributions in these illustrations as it would be disproportionately burdensome and the Scheme does not levy charges on contributions.

## Lifestyle Strategy

This is the strategy that is used by the largest number of members in the Scheme's DC arrangements

Years of membership	Age: 20 Starting pot size: £2,000		Age: 35 Starting pot size: £25,000		Age: 50 Starting pot size: £20,000		Age: 50 Starting pot size: £50,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£2,000	£2,000	£25,000	£25,000	£20,000	£20,000	£50,000	£50,000
1	£2,053	£2,049	£25,659	£25,610	£20,527	£20,488	£51,317	£51,220
3	£2,162	£2,150	£27,028	£26,874	£22,192	£22,024	£55,480	£55,059
5	£2,278	£2,256	£28,471	£28,201	£23,377	£23,111	£58,441	£57,778
10	£2,594	£2,545	£32,423	£31,812	£26,344	£25,797	£65,859	£64,493
15	£2,954	£2,871	£36,925	£35,886	£27,469	£26,638	£68,673	£66,594
20	£3,364	£3,238	£42,051	£40,481	-	-	-	-
25	£3,831	£3,653	£47,722	£45,504	-	-	-	-
30	£4,363	£4,121	£50,652	£47,830	-	-	-	-
40	£5,639	£5,225	-	-	-	-	-	-
48	£5,943	£5,422	-	-	-	-	-	-

### LGIM Global Equity Fixed Weights (50:50) Index Fund

This fund has the highest expected real investment return amongst those applicable to the Scheme's DC arrangements

Years of membership	Age: 20 Starting pot size: £2,000		Age: 35 Starting pot size: £25,000		Age: 50 Starting pot size: £20,000		Age: 50 Starting pot size: £50,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£2,000	£2,000	£25,000	£25,000	£20,000	£20,000	£50,000	£50,000
1	£2,053	£2,049	£25,659	£25,610	£20,527	£20,488	£51,317	£51,220
3	£2,162	£2,150	£27,028	£26,874	£21,622	£21,499	£54,056	£53,748
5	£2,278	£2,256	£28,471	£28,201	£22,777	£22,561	£56,942	£56,402
10	£2,594	£2,545	£32,423	£31,812	£25,939	£25,450	£64,847	£63,624
15	£2,954	£2,871	£36,925	£35,886	£29,540	£28,709	£73,850	£71,771
20	£3,364	£3,238	£42,051	£40,481	-	-	-	-
25	£3,831	£3,653	£47,889	£45,664	-	-	-	-
30	£4,363	£4,121	£54,538	£51,511	-	-	-	-
40	£5,659	£5,244	-	-	-	-	-	-
48	£6,967	£6,359	-	-	-	-	-	-

### LGIM Sterling Liquidity Fund

This fund has the lowest expected real investment return amongst those applicable to the Scheme's DC arrangements.

Years of membership	Age: 20 Starting pot size: £2,000		Age: 35 Starting pot size: £25,000		Age: 50 Starting pot size: £20,000		Age: 50 Starting pot size: £50,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£2,000	£2,000	£25,000	£25,000	£20,000	£20,000	£50,000	£50,000
1	£1,971	£1,968	£24,634	£24,604	£19,707	£19,683	£49,268	£49,207
3	£1,913	£1,906	£23,918	£23,830	£19,135	£19,064	£47,837	£47,659
5	£1,858	£1,846	£23,223	£23,080	£18,579	£18,464	£46,447	£46,160
10	£1,726	£1,705	£21,573	£21,308	£17,259	£17,046	£43,146	£42,615
15	£1,603	£1,574	£20,040	£19,671	£16,032	£15,737	£40,080	£39,343
20	£1,489	£1,453	£18,616	£18,161	-	-	-	-
25	£1,383	£1,341	£17,293	£16,766	-	-	-	-
30	£1,285	£1,238	£16,064	£15,479	-	-	-	-
40	£1,109	£1,055	-	-	-	-	-	-
48	£986	£929	-	-	-	-	-	-

## LGIM Global Emerging Markets Index Fund

This fund has the largest total member-borne charges amongst the investment options applicable to the Scheme's DC arrangements.

Years of membership	Age: 20 Starting pot size: £2,000		Age: 35 Starting pot size: £25,000		Age: 50 Starting pot size: £20,000		Age: 50 Starting pot size: £50,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£2,000	£2,000	£25,000	£25,000	£20,000	£20,000	£50,000	£50,000
1	£2,053	£2,041	£25,659	£25,517	£20,527	£20,414	£51,317	£51,034
3	£2,162	£2,127	£27,028	£26,584	£21,622	£21,267	£54,056	£53,167
5	£2,278	£2,216	£28,471	£27,695	£22,777	£22,156	£56,942	£55,389
10	£2,594	£2,454	£32,423	£30,680	£25,939	£24,544	£64,847	£61,359
15	£2,954	£2,719	£36,925	£33,986	£29,540	£27,189	£73,850	£67,972
20	£3,364	£3,012	£42,051	£37,649	-	-	-	-
25	£3,831	£3,337	£47,889	£41,707	-	-	-	-
30	£4,363	£3,696	£54,538	£46,203	-	-	-	-
40	£5,659	£4,536	-	-	-	-	-	-
48	£6,967	£5,343	-	-	-	-	-	-

## LGIM Overseas Bond Index Fund

This fund has lowest total member-borne charges amongst the investment options applicable to the Scheme's DC arrangements

Years of membership	Age: 20 Starting pot size: £2,000		Age: 35 Starting pot size: £25,000		Age: 50 Starting pot size: £20,000		Age: 50 Starting pot size: £50,000	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£2,000	£2,000	£25,000	£25,000	£20,000	£20,000	£50,000	£50,000
1	£2,000	£1,997	£25,000	£24,963	£20,000	£19,971	£50,000	£49,927
3	£2,000	£1,991	£25,000	£24,890	£20,000	£19,912	£50,000	£49,781
5	£2,000	£1,985	£25,000	£24,818	£20,000	£19,854	£50,000	£49,635
10	£2,000	£1,971	£25,000	£24,637	£20,000	£19,709	£50,000	£49,273
15	£2,000	£1,957	£25,000	£24,457	£20,000	£19,565	£50,000	£48,914
20	£2,000	£1,942	£25,000	£24,278	-	-	-	-
25	£2,000	£1,928	£25,000	£24,101	-	-	-	-
30	£2,000	£1,914	£25,000	£23,925	-	-	-	-
40	£2,000	£1,886	-	-	-	-	-	-
48	£2,000	£1,864	-	-	-	-	-	-

### 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. It is for this reason some funds show negative real growth.
2. Inflation is assumed to be 2.5% each year
3. No further contributions are assumed to be paid
4. Values shown are estimates and are not guaranteed
5. Charges for each fund used in the illustrations are those outlined in this statement
6. The projected growth rates for each fund or arrangement are in line with those produced for the Scheme's 2019 Statutory Money Purchase Illustrations (SMPI), and are as follows:

<b>Fund</b>	<b>Assumed Investment Return</b>
LGIM Global Equity Fixed Weights (50:50) Index Fund	5.20% pa
LGIM Over 5yr Index-Linked Gilts Index Fund	1.70% pa
LGIM Sterling Liquidity Fund	1.00% pa
LGIM North American Equity Index Fund	5.20% pa
LGIM Overseas Bond Index Fund	2.50% pa

## Value for members

Regulations require the Trustee to assess the extent to which the charges and transactions costs borne by the members represent good value for the services provided by the members.

The only charges and transaction costs borne by members relate to Legal and General's investment services. All other costs associated with the operation of the DC Section are met by the Company.

The Trustee's opinion is that Legal and General offer good value for members for their DC investments. This is because compared to other providers the Trustee believes Legal and General charge a competitive annual management charge on their investments. The Trustee has periodically tracked their performance against the benchmarks of the individual funds at Trustee meetings, including during the October 2018 Trustee meeting. The Trustee also periodically reviews Legal and General's internal controls and governance policies that are in place.

The Trustee's review of the value being offered to members only considered the services for which the members bear or share the costs. Other factors that the Trustee considers appropriate in terms of assessing value include:

- Services paid by the Company, e.g. the DC Section's administration services, and services of legal advisers, consultants and auditors.
- The Trustee is considering whether to assist members in understanding their options by providing access to an Independent Financial Adviser. Although the Company may bear the costs associated with this, the Trustee considers it an important aspect of the value being offered to members. Discussions in this area progressed at the February 2019 meeting. The Trustee intends to organise sessions to help members to better understand their pension benefits.
- Operation of the Trustee board.



## Trustee knowledge and understanding

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The Scheme has a corporate Trustee comprising of 6 trustee directors. The Trustee has delegated the day to day management of the Scheme to professional organisations, details of which are summarised in the Scheme Accounts.

## Knowledge and expertise

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The Trustee regularly reviews its skills and competencies to ensure it understands its duties and has sufficient time and resources to govern the Scheme and the individual trustee directors take responsibility for keeping themselves up to date with the relevant legislation and guidance relating to occupational pension schemes, including a working knowledge of the current Statement of Investment Principles and any documents that set out the Trustee's current policies.

The Trustee has a standing agenda item at every meeting to discuss any training needs and request any training for future meetings as the Trustee self-evaluates its needs over the year. Any requests for training that have arisen are implemented at the next meeting and the Trustee receives updates from its advisers regarding any current pension issues at each meeting. This includes regular training regarding the Scheme's Rules, the Statement of Investment Principles (discussed with the Scheme's investment advisers) and general Scheme documentation as appropriate for the running of the Scheme.

All new Scheme trustee directors attend an introductory training course when they first become a trustee director and progress against the Pensions Regulator's toolkit is discussed at each Trustee meeting. Any training undertaken by the Trustee is recorded in the Trustee meeting minutes.

To ensure legislative requirements are met, the Trustee consults the Scheme's Trust Deed & Rules (and other associated documents) and seeks professional guidance and advice. In addition, the Trustee regularly reviews the Statement of Investment Principles and this has been discussed at length during the period.

The Trustee consults externally with professional advisors as and when required, for example on investment advice, consultancy, governance and legal matters. Their professional advisors alert the Trustee to relevant changes to pension legislation.

The Trustee considers that the trustee directors' combined knowledge, skills and understanding together with the advice available to them enables them to properly exercise their functions relating to the Scheme's DC arrangements.

## Statement of compliance

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On behalf of the Trustee of the Paterson Enterprises Pension Scheme I confirm that the Trustee is comfortable that the DC Section has met the minimum governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations during the period 1 August 2019 to 31 July 2020.

The Trustee also believes it has considered the DC quality features as they relate to the Scheme and will continue to monitor adherence on an ongoing basis.



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Mr D G Jones  
Chairman on behalf of the Trustee of the Paterson Enterprises Pension Scheme



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**Registration**

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XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

XPS Administration Limited, Registered No. 9428346.

XPS Pensions (RL) Limited, Registered No. 5817049.

Trigon Professional Services Limited, Registered No. 12085392.

All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

**Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).