

# Annual Chairman's Statement for the GATX-UK Pension Scheme ("the Scheme")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustees to prepare an annual statement regarding governance, which must be included in the annual Trustees report and accounts. The governance requirements apply to all defined contribution ("DC") pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustees covers the period from 6 April 2023 to 5 April 2024 and is signed on behalf of the Trustees by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. Processing of core financial transactions
2. Net investment returns
3. Member borne charges and transaction costs, including illustrations of the cumulative effect of these costs and charges
4. Value for Members assessment
5. Trustees' knowledge and understanding

The Scheme is primarily a Defined Benefits ("DB") arrangement. Twenty six members retain Protected Rights money purchase benefits (i.e. on a DC basis). For ten of these members, the Protected Rights funds are their only pension benefits in the Scheme. For the remaining sixteen they are an underpin to the Post 97 element of their DB pension.

In addition, one member holds Additional Voluntary Contributions ("AVC") funds invested with Utmost Life and Pensions ("Utmost") in their Money Market Fund

The Protected Rights money purchase benefits for the Scheme during the period were notionally invested in the same underlying funds as the defined benefit section of the Scheme, i.e. the members are assigned notional units and the unit prices for these money purchase benefits are indexed relative to the performance of the defined benefit assets.

The Regulations require trustees to set out the governance processes in relation to the default investment strategy for their scheme. Our Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since the relevant Regulations came into force. The Scheme therefore has no default investment strategy, as defined by the Regulations, and so the governance requirements in relation to the default investment strategy do not apply to the Scheme and are not covered in this statement.

## 1. Processing of Core Financial Transactions

**The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the investment of contributions, transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.**

The bulk of the core financial transactions are undertaken on behalf of the Trustees by the administrator, Aon. The Trustees have a Service Level Agreement ("SLA") in place with Aon that covers the accuracy and timeliness of all core financial transactions. These SLAs detail a number of key administration processes to be performed and the target timescale within which each of these processes needs to be completed. There are SLAs in place for all core financial transactions. As the Scheme is closed to future accrual, core financial transactions are limited to payments of transfers and benefits at retirement or death (fund switches are not relevant for the Scheme). Under the current SLA, Aon aims to accurately complete all financial transactions

within 5 working days. Aon's SLA performance is reported quarterly, over this reporting period it averaged 98%.

The Trustees have reviewed the key processes adopted by Aon in order to minimise the risks of inaccurate or late payment of core financial transactions. Key processes to help meet and monitor SLAs include:

- Provision of quarterly administration reports – enabling the Trustees to check core financial transactions and review processes relative to any member complaints made. Following a request by the Trustees, the administration reports have been expanded to include details of transactions and benefits relating to the Protected Rights benefits held by members;
- Checks for all financial transactions prior to processing;
- Straight-through processing for many tasks avoiding the need for manual intervention and, in turn, significantly reducing the risk of error; and
- Documentation and operation in line with quality assurance policies and procedures.

Controls around administration and the processing of transactions are regularly reviewed.

The Trustees are satisfied that over the period covered by this statement:

- Aon was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately.

I am therefore pleased to report there have been no administration service issues with respect to core financial transactions which need to be reported here.

## 2. Net investment returns

**The Trustees are required to report on net investment returns for each default arrangement and for each non-default fund which scheme members were invested in during the scheme year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges.**

The net investment returns have been prepared having regard to statutory guidance, except they are only available at quarter end, so the returns shown are to 31 March 2024, not 5 April 2024.

It is important to note that past performance is not a guarantee of future performance.

Performance to 31 March 2024	Annualised returns (%)	
Fund name	1 year	5 years
Protected Rights	1.7	-1.6

Source: Aon

### Additional Voluntary contributions

Performance to 31 March 2024	Annualised returns (%)	
Fund name	1 year	5 years
Utmost Money Market	4.7	1.2

Source: Morningstar

## 3. Member Borne Charges and Transaction costs

The Trustees must report the level of charges borne by members through the investment funds. These charges comprise:

- **Charges:** these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (“TER”), or as an Annual Management Charge (“AMC”), which is a component of the TER;
- **Transaction costs:** these are not explicit and are incurred when the Scheme's fund manager buys and sells assets within investment funds but they do not include any costs incurred when members invest in or sell out of funds.

The Trustees are also required to confirm that the charges on the default arrangement have not exceeded 0.75% p.a, (“the charge cap”) and produce an illustration of the cumulative effect of the costs and charges on members’ retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

As noted earlier in the statement, there is no default arrangement in the Scheme.

The Protected Rights money purchase benefits for the Scheme during the period were notionally invested in the same underlying funds as the defined benefit section of the Scheme, i.e. the members are assigned units and the unit prices for these money purchase benefits were indexed relative to the performance of the defined benefit assets.

As such, there were no explicit charges applied to member funds and transaction costs are not quantified. The underlying defined benefits assets do however attract a charge of 0.25% p.a. which was implicit in the returns applied to the unit prices.

Additionally, one member had an AVC policy with Utmost Life and Pensions invested in their Money Market Fund. The TER that applied to the Fund was 0.50% p.a. over the period of review with transactions costs of 0.02%.

### Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustees have produced the following illustration of their cumulative effect on the value of typical scheme members savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance and are based on a number of assumptions about the future which are set out below.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme, they are not a substitute for the individual and personalised illustrations which are provided to members in their Annual Benefit Statements.

The illustration below is based on a member who is 45 years old, has a normal retirement age of 65, is invested in the Protected Rights Fund and has a starting fund value of £2,500. No further contributions are payable. Projections are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
45	2,500	2,500	0

50	2,960	2,920	40
55	3,500	3,420	80
60	4,140	3,990	150
65	4,890	4,670	220

#### **Assumptions and data for illustrations:**

*The following assumptions have been made for the purposes of the above illustrations:*

1. *The growth rate (gross of costs and charges) assumed for the Scheme assets is 6.00% p.a.*
2. *Projected pension pots are shown in today's terms and do not need to be reduced further for the effect of future inflation.*
3. *Inflation is assumed to be 2.5% p.a.*
4. *The TER is shown in the section above.*
5. *Retirement is assumed at age 65.*
6. *No further contributions are payable.*
7. *The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.*

Note: Illustrations for the AVC fund are not shown as only one member holds AVCs therefore the projection shown in their annual benefit statement will give a more accurate result.

#### **4. Value for Members assessment**

**The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members.**

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 introduced a prescribed assessment framework for specified small schemes such as the Scheme. The Trustees have followed this framework in carrying out this year's assessment.

The prescribed assessment framework is made up of three parts, as outlined below.

##### **i) Cost and charges**

The cost and charges that members pay in the Scheme have been compared to those that members may pay in three other (larger) pension schemes, referred to as the comparator schemes. For the purpose of this exercise, we have selected three Master Trusts as the comparator schemes: the People's Pension Trust, the Aegon Master Trust and the National Employment Savings Trust ("NEST").

Our assessment showed that the costs and charges members pay in the Scheme are lower than the average costs and charges they would pay in the comparator schemes and so do represent good value.

##### **ii) Net investment returns**

The net investment returns that members achieved in the Scheme, over the one and five year periods to 31 March 2024 have been compared to those that members may have achieved in the three comparator schemes mentioned above.

Our assessment showed that the net investment returns members achieved in the Scheme were lower than the net investment returns in the comparator schemes.

For some members of the Scheme, the Protected Rights fund acts as an underpin to a defined benefits pension. For other members the Protected Rights fund is their only benefit within the Scheme. Our conclusion therefore differs between groups of members as follows:

For members that only retain the Protected Rights fund within the Scheme, we believe that the net investment returns achieved in the Scheme do not represent good value for members compared to the comparator schemes.

For members of the Scheme where the Protected Rights fund acts as an underpin to a defined benefit pension, we expect for the majority of members, the Protected Rights underpin is very unlikely to bite, and therefore their benefit in the Scheme is likely to be defined benefit pension. Therefore considering the potential defined benefits pension available and the net investment returns provided in the Scheme together, and taking into account that this defined benefit pension would not be provided in the comparator schemes, we believe the net investment returns in the Scheme do represent good value for members compared to the comparator schemes.

##### **iii) Administration and Governance**

An assessment of the following Governance and Administration metrics has been undertaken for the Scheme, where applicable: Level of trustee knowledge, understanding and skills to operate the pension scheme effectively; effectiveness of management of conflicts of interest; appropriateness of the default investment strategy; quality of investment governance; quality of member communications; promptness and accuracy of core financial transactions and quality of record keeping. These metrics are not benchmarked against the comparator schemes, they are simply assessed by the Trustees using readily available benchmarking data.

Our assessment concluded that for all members, the Governance and Administration of the Scheme does provide good value for members. We have provided further detail below, under the four broad areas in which we carried out this part of the assessment:

#### Scheme governance

- The Trustees have reviewed the process and structure of the governing body and actively considers actions that will improve the current position. The Trustees undertake training as required that meets the relevant DC sections of the Pension's Regulator's code on Trustee Knowledge and Understanding and work with their professional advisers to reviews key issues relating to how well the Scheme is run and whether it is meeting members' needs at regular Trustee meetings held during the year.
- The Trustees operate in accordance with their governance framework which covers the legislative and best practice standards set out by the Pension Regulator. This ensures that the Trustees operate in a way that helps deliver better member outcomes.

#### Investment governance

- The Trustees, supported by their investment adviser, review the investment strategy on a regular basis. A strategy review was completed during the 2020/21 Scheme year as the Company and Trustees were considering a potential buy-in of the Scheme liabilities. On this basis, some changes were made to the investment strategy with the aim of maintaining the funding level in relation to the estimated solvency level of the Scheme.
- The Trustees receive regular investment monitoring reports to ensure that the DB assets are performing in line with intended objectives. Performance is shown net of fees and is compared against benchmarks. Based on their review, the Trustees believe that the performance of the funds is consistent with the aims and objectives set.

#### Administration

- The Trustees have appointed Aon to provide administration services to the Scheme and is satisfied that Aon has the right processes and checks in place to monitor and report on the standard of the administration service. The Trustees gain insight in connection with the member experience through their direct interactions and quarterly administration reporting.
- The Scheme is in line with the majority in respect of receiving SLA information in quarterly reports from the administrators. The monitoring information provided indicates that the necessary administration standards are being achieved.

#### Member communications

- Annual benefit statements and other statutory communications are sent to members by the administrator.
- The Trustees consider the communications accurate, clear, informative and timely.

#### **Overall conclusion of the Value for Members assessment**

The Trustees' conclusion differs between groups of members. For members that only retain the Protected Rights fund within the Scheme, the Trustees do not believe that the Scheme provides good value. But, for members of the Scheme where the Protected Rights fund acts as an underpin to a defined benefits annual pension, the Trustees believe that the Scheme does provide good value. Given the majority of DC members in the Scheme are members where the Protected Rights fund acts as an underpin to a defined benefits annual pension, the Trustees' overall conclusion is that on the whole, the Scheme does provide good value for members.

## **5. Trustees' 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 7.**

The comments in this section relate to the Scheme as a whole and not solely the DC Protected Rights benefits.

The Trustees have processes and procedure in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- New Trustees are encouraged to complete the Pension Regulator's Trustees Toolkit, which is an online learning programme which includes modules on Trust and Pension Law and are provided with key Scheme documents and policies (including the Trust Deed and Rules, Statement of Investment Principles, Trustee Report and Accounts and Scheme governance tools ). Trustees also consider the training requirements for new Trustees on appointment.
  - No new Trustees were appointed over the Scheme year.
- The Trustees undergo regular training.
  - During the Scheme year, this has included training on the General Code of Practice.

The Trustees have engaged with their professional advisers regularly throughout the year to ensure that they exercise their functions properly and take professional advice where needed. In exercising their functions this has required knowledge of key scheme documents such as the Trust Deed & Rules, Trustee Report & Accounts and Statement of Investment Principles. A few of the areas covered and actions taken over the year that support this statement are set out below:

- Carrying out regular annual tasks, such as reviewing and signing off of the Trustees' Report and Accounts, which includes reviewing the Chair's Statement (this document) and Implementation Statement (a document which describes how the Trustees have complied with the policies in the Statement of Investment Principles over the year);
- Making decisions on specific member cases, taking into account the requirements of the Scheme's governing documents (the Trust Deed & Rules), the Scheme's agreed policies/practices and also the wider law relating to pensions and trusts;
- Reviewing quarterly administration reports to monitor service delivery against agreed service levels standards and assessing the member experience;
- Reviewing quarterly investment reports to assess fund performance against benchmarks, and funds against overall Scheme aim and objectives, as set out in the Statement of Investment Principles; and
- Holding regular Trustee meetings with providers and advisers who provided reporting and specialist advice before asking the Trustees to take relevant decisions as required. Minutes of each Trustee meeting document the information shared and specialist advice given.

The Trustees have a range of skills and experiences including a mixture of Member Nominated and Company Nominated directors with varying backgrounds. In addition to the skills within the Trustee board, the Trustees work closely with its appointed professional advisers throughout the year in order to ensure that it runs the Scheme and exercises its functions properly. Its professional advisers also attend the Trustees' meetings.

Taking into consideration the size of the Scheme, the training activities completed by the Trustees, and the professional advice available, the Trustee Board considers that it has met the Pensions Regulator's requirements for trustees to have appropriate knowledge and understanding during the Scheme year and is confident that the combined knowledge and

understanding across the Trustee Board, with support from their professional advisers, enables it to properly exercise its functions.

Signed on behalf of the Trustees of the GATX-UK Pension Scheme

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_