

Chair's Statement for the Esm (UK) Ltd Retirement and Death Benefits Scheme for the scheme year ending 14 February 2022

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ('the Administration Regulations') require the Trustee of the Esm (UK) Ltd Retirement and Death Benefits Scheme (also referred to from time to time as the Esm (UK) Ltd Pension Scheme) ('the Scheme') to prepare an annual statement regarding governance, which must be published online. These requirements apply to all defined contribution ('DC') pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement covers the period from 15 February 2021 to 14 February 2022 and the original has been signed on behalf of the Trustee by the Chair. It covers governance and charge disclosures in relation to the following:

1. Processing of core financial transactions
2. Charges and transaction costs paid by members
3. Net investment returns
4. Value for Members assessment
5. Trustee knowledge and understanding

The Regulations also require trustees to set out the governance processes in relation to the default investment strategy for their scheme. The Scheme is not (and has never been) 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. This means the governance requirements in relation to the default investment strategy do not apply to the Scheme and are therefore not covered in this statement.

After the 2022 Scheme Year-End, the Trustee signed a resolution to wind up the Scheme and secure members' benefits outside the Trust. The Trustee will be writing to members directly about these changes.

1. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. The Scheme has been closed to contributions for a number of years, each policy offers only one investment fund and the Scheme does not allow transfers in. Therefore, core financial transactions are the transfer of member funds out of the Scheme and payments to and in respect of members and beneficiaries.

Core financial transactions are undertaken on behalf of the Trustee by the provider, Aviva. The Trustee does not have a service level agreement in place with Aviva, which is common for older 'legacy' arrangements i.e. those that are closed to contributions. However, Aviva has internal controls in place to ensure it administers its workplace pension schemes efficiently and has target timescales for completing key administration tasks which include processing core financial transactions. Aviva undertakes Audit and Assurance Faculty ('AAF') reporting annually to independently test the robustness of its internal controls. The latest report, covering controls in place and operating during the year to 31 December 2021, raised no major exceptions and therefore concluded Aviva's internal controls were adequate.

Given the size of the Scheme and the irregularity of transactions, the Trustee monitors these on an individual basis. During the period covered by this statement, there were no core financial transactions.

The Trustee can therefore confirm that there have been no administration errors in relation to processing core financial transactions over the period covered by this statement. The Trustee is also satisfied that Aviva was operating appropriate procedures, checks and controls during this reporting period.

2. Charges and transaction costs paid by members

The Trustee is expected to show the:

- (i) Explicit charges paid by members. The Total Expense Ratio ('TER') is the total of the explicit charges each year expressed as a percentage of the fund value. It provides a clear picture of the total annual costs of running the fund.
- (ii) Transaction costs paid by members. These are the costs of buying and selling investments in a fund which are not explicit but are reflected in the investment return and therefore the bonus rate declared on the fund.

Assets of the Scheme are invested in the Aviva (former Friends Provident) With Profits Sub-Fund (Main Series1) and the Aviva Conventional With Profits Fund.

The Trustee has set out the costs and charges that were incurred by members of the Scheme in the table below. The charges and transaction costs have been supplied by Aviva. Aviva publishes transaction costs on a quarterly basis so the transaction costs shown are for the 12-month period to 31 December 2021.

Members of policy F29827 hold 'initial' and 'accumulation' units in the Aviva (former Friends Provident) With Profits Sub-Fund (Main Series1). Contributions paid to policy F29827 during the first year for each member were used to buy 'initial' units. These have higher charges than accumulation units and were intended to pay the provider for the set-up costs of the policy. Aviva has confirmed the initial units are cancelled at a rate of 0.5% per month until the member is age 55.

Fund	TER (%)	Transaction Costs (%)	Total costs and charges (%)
Policy E26199 Aviva Conventional With Profits Fund	0.62	0.12	0.74
Policy F29827 Aviva (former Friends Provident) With Profits Sub-Fund (Main Series1)	0.25 ¹	0.139	0.389

¹ In addition to the TER, the cancellation of initial units is equivalent to a member-borne charge of 5.8% p.a. until the member reaches age 55.

2ii. Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of costs and charges typically paid by a member on their fund (as a "pounds and pence figure"). The Regulations allow the Trustee to exercise its discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

Although the Trustee has started to wind up the Scheme, members are expected to remain invested in the Aviva With Profits funds after wind-up therefore, in order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has decided to include illustrations in this statement.

The Trustee has provided illustrations of the cumulative effect of costs and charges on the value of a typical Scheme members' funds over the period to their retirement. They have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out under 'notes and assumptions' 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.

The illustrations below do not take account of the guaranteed pension secured with the Aviva Conventional With Profits Fund (policy E26199) or the guaranteed annual bonus rate on the Aviva (former Friends Provident) With Profits Sub-Fund (policy F29827).

For funds in policy E26199, the value of members' benefits at retirement will be based upon the guaranteed pension secured by contributions paid.

The value at normal retirement date for funds in policy F29827 will be based upon the bonuses added each year (which are guaranteed to be at least 4% p.a.) and any terminal bonus payable at retirement. However, the costs and charges set out above will impact the number of initial units a member holds at retirement and will potentially impact the terminal bonus payable.

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.

We have decided to show illustrations for two example members:

- Example member 1: a member of policy E26199 who is age 48 and therefore has 12 years until they reach normal retirement age with a current fund value of £15,750.
- Example member 2: a member of policy F29827 who is age 48 and therefore has 12 years until they reach normal retirement age with £1,400 invested in initial units and £8,900 invested in accumulation units.

The projected impact of charges on estimated fund values is shown in the tables below:

Example member 1 (Policy E26199):

Years to retirement	With Profits Fund		
	Before charges	After charges	Effect of charges
10	£15,900	£15,680	£220
5	£16,300	£15,490	£810
0	£16,700	£15,310	£1,390

Example member 2 (Policy F29827):

Years to retirement	With Profits Fund Initial Units			With Profits Fund Accumulation Units			Total effect of charges
	Before charges	After charges	Effect of charges	Before charges	After charges	Effect of charges	
10	£1,410	£1,250	£160	£8,990	£8,920	£70	£230
5	£1,450	£940	£510	£9,210	£8,970	£240	£750
0	£1,480	£940	£540	£9,440	£9,030	£410	£950

Notes and assumptions

- Fund values shown are estimates and are not guaranteed
- Illustrations assume no further contributions are paid
- Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Inflation is assumed to be 2.5% p.a.
- The starting fund values used in the projections are representative of the average for the Scheme's members
- The transaction costs have been averaged over a 3 year period for policy F29827 in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time. This is the first year Aviva has provided transaction costs for policy E26199, therefore transaction costs for this policy are not averaged.
- The projected growth rates used have been provided by Aviva and are consistent with the growth rates used in members' annual benefit statements.

- The growth rates and total charges (i.e. the TER plus transaction costs) used for the illustrations are shown in the table below:

Fund	Total charges (% p.a.)	Expected growth rate
Policy E26199 With Profits Fund	0.74	0.5% p.a. above inflation
Policy F29827 With Profits Fund initial units	6.19	
Policy F29827 With Profits Fund accumulation units	0.39	

3. Net investment returns

The Trustee is required to report net investment returns for each fund members of the Scheme were invested in. The 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. The net investment returns shown in the table below are the bonus rates declared on the With Profits Funds over the calendar year. Whilst in practice we would expect a terminal bonus to increase returns to close to the returns achieved by the underlying assets of these funds over the period held (after all costs of running the funds, including the costs of any guarantees), these amounts are unknown and are not guaranteed. A market value reduction, which can reduce the return delivered to investors, may be applied on exit from these funds at any time other than at maturity date, or in the event of death before retirement.

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

Fund	Net investment return over 2021 calendar year
Policy E26199 With Profits Fund	0%
Policy F29827 With Profits Fund (initial and accumulation units)	4%

Source: Aviva

4. Value for members assessment

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

As the Scheme has assets under management of less than £100 million, it would normally be required to carry out a more detailed value for members assessment this year. However, as the Trustee has started to wind up the Scheme, the more detailed assessment is not required.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. For the period covered by this statement, the Trustee has taken account of the costs and charges paid by members (as set out above) and the bonus rates on the Aviva With Profits Funds in which all assets are invested. Members have potentially valuable guarantees through the With Profits Funds they hold, which would be lost on transfer from these funds, but they do not receive any other benefits from the Scheme (in terms of governance oversight by the Trustee, communications or support at retirement). In 2020, the Trustee came to the conclusion that the Scheme did not offer value for members and therefore agreed it should be wound up if this was possible without loss of the With Profits guarantees. The Trustee has since started to wind up the Scheme and will be writing to members directly about this.

4. Trustee Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 require the Trustee to have sufficient knowledge and understanding to properly exercise its function as Trustee and to run the Scheme effectively.

The Company, Satake Europe Limited, is the Trustee of the Scheme and the Trustee Board is made up of Company Directors whose professional backgrounds mean they have expertise in financial management.

The Trustee Directors have also appointed Aon and 3CS as professional advisers, to advise on any specific knowledge and understanding requirements and to enable them to exercise their Trustee functions properly as they progress the wind-up of the Scheme.

Signed on behalf of the Trustee of the Esm (UK) Ltd Retirement & Death Benefits Scheme

Kaoru Kawate, Chair of Trustee

Date 14 September 2022