APPENDIX II – CHAIR'S STATEMENT

Chair's Annual governance statement for the Townsend Hook Defined Contribution Plan

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which must be included in the annual Trustee's Report and Financial Statements. 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 Trustee of the Townsend Hook Defined Contribution Plan ("the Plan") covers the period from 1 January 2023 to 31 December 2023 and is signed on behalf of the Trustee by the Chair.

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

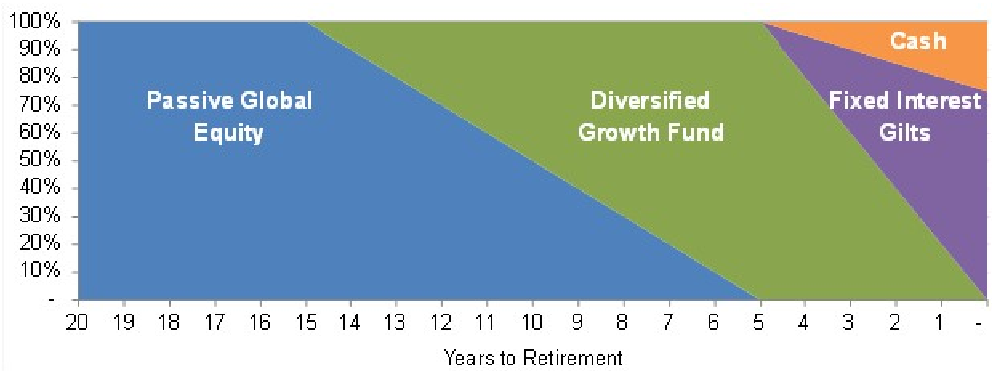
1. The default arrangements
2. Net investment returns
3. Member borne charges and transaction costs (including Illustrations of the cumulative effect of these costs and charges)
4. Value for Members assessment
5. Processing of core financial transactions
6. Trustee knowledge and understanding

1. The default arrangements

The Trustee is responsible for the governance of the Plan's investments, which includes setting and monitoring the investment strategy for the Plan's default arrangements.

1.1. Post 97 Funds

Funds accrued in service before 6 April 1997 are subject to a Guaranteed Minimum Pension ('GMP') underpin and the pre 97 Lifestyle investment strategy is the default arrangement. Plan members are unable to select alternative investment strategies in respect of these funds. The pre 97 Lifestyle investment strategy has been set up as a lifestyle arrangement which means that member's assets are automatically moved between different investment fund as they approach their target retirement date. This is illustrated in the chart below.



The pre 97 Lifestyle investment strategy invests in the Passive Global Equity Fund until fifteen years before target retirement date. From that point, the strategy is gradually switched into the Diversified Growth Fund, then, five years from retirement, also switches to the Fixed Interest Gilt Fund and the Cash Fund. At the target retirement date 75% is invested in the Fixed Interest Gilt Fund and 25% in the Cash Fund.

1.2. Post 97 Funds

The post 97 Lifestyle investment strategy is the default arrangement for funds accrued after 6 April 1997. Plan members are able to select alternative investment strategies and the post 97 Lifestyle investment strategy is provided for members who do not choose an investment option. The post 97 Lifestyle investment strategy has also been set up as a lifestyle arrangement, as illustrated in the chart below.

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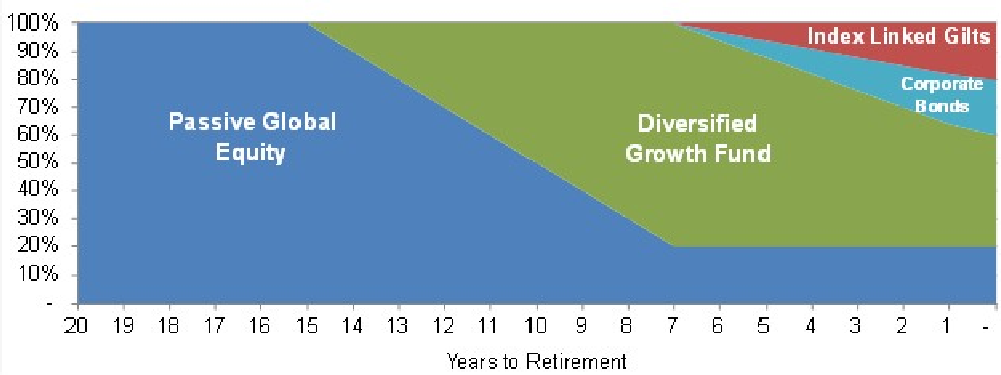

The post 97 Lifestyle investment strategy invests in the Passive Global Equity Fund until fifteen years before target retirement date. From that point, the strategy is gradually switched into the Diversified Growth Fund, then, seven years from retirement, switches to the Index Linked Gilts Fund and the L&G Corporate Bond Fund. At the target retirement date 20% is invested in the Passive Global Equity Fund, 40% in the Diversified Growth Fund, 20% in the Index Linked Gilts Fund and 20% in the L&G Corporate Bond Fund.

The Trustee is expected to review the investment strategy and objectives of the default arrangements at regular intervals, and to consider the needs of the Plan's membership when designing the default arrangements.

The latest strategy review was completed in December 2022. The Trustee decided not to make any immediate changes to the default arrangements following this review due to a wider review considering the viability of securing the underpin benefits of the Plan with an insurer and other options for the excess DC funds.

This review continues, with further consideration now being given to the investment design, and how this can continue to provide good value to members and also reduce the volatility of a potential transaction in future. A high-level timeline expects all changes to the strategy to be complete during 2024. Full details will therefore be set out in future governance statements following completion.

The Trustee monitors the performance of the underlying funds used within the default arrangements against their index/benchmarks twice a year.

Details of the strategy and objectives of the default arrangements are recorded in a document called the Statement of Investment Principles ('SIP'). The Plan's latest SIP dated 23 September 2020 is attached and can also be found at: https://pensioninformation.aon.com/townsendhook.

1.3 Performance Monitoring

The Trustee reviews the performance of the funds that are used within the default arrangement against their aims and objectives on a quarterly basis. This review includes an analysis of fund performance to check that the risk and return levels meet expectations. Performance of the funds is reviewed against benchmarks and, where relevant, targets, that have been agreed with the investment managers.

The Trustee reviews that took place over the year concluded that the funds used within the default arrangement were performing broadly as expected and in line with the aims and objectives of the strategy as shown in the SIP. Whilst financial markets have been volatile, the default arrangement is designed with long term investment in mind, and longer-term performance remains positive.

1.4 Default arrangement asset allocation

The Trustee is required to disclose the full asset allocation of investments for the default arrangement. The table below shows the percentage of assets allocated in the default arrangement to specified asset classes over the year to 31 December 2023.

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Pre 97 Default Lifestyle

	Average asset allocation over year to 31 December 2023 (%)			
Asset class	25 years old	45 years old	55 years old	NRA
Cash	-	-	6	10
Bonds	-	-	23	90
Listed equities	100	100	70	-
Private equity	-	-	-	-
Infrastructure	-	-	-	-
Property	-	-	-	-
Private debt	-	-	-	-
Other	-	-	2	-

Post 97 Default Lifestyle

	Average asset allocation over year to 31 December 2023 (%)			
Asset class	25 years old	45 years old	55 years old	NRA
Cash	-	-	6	4
Bonds	-	-	23	59
Listed equities	100	100	70	36
Private equity	-	-	-	-
Infrastructure	-	-	-	-
Property	-	-	-	-
Private debt	-	-	-	-
Other	-	-	2	1

2. Net investment returns

The Trustee is 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 Plan year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns shown below have been prepared having regard to statutory guidance and show performance at different ages for members invested in the default lifestyle investment strategies.

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

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(i) Default arrangements

Pre 97 Lifestyle investment strategy		
Performance to 31 December 2023	Annualised returns (% p.a.)	
Age of member at start of reporting period	1 year	5 years
25	16.8	12.9
45	16.8	12.9
55	11.0	7.5

Post 97 Lifestyle investment strategy		
Performance to 31 December 2023	Annualised returns (% p.a.)	
Age of member at start of reporting period	1 year	5 years
25	16.8	12.9
45	16.8	12.9
55	11.0	7.7

Source: Legal & General Investment Management ('LGIM')

Fund performance covering a five-year period allows for the change to underlying funds completed during 2019. During 2019 the Trustee, after taking advice, replaced the Standard Life Global Absolute Return underlying fund with the Schroder Dynamic Multi-Asset Fund, on 5 August 2019.

(ii) Self-select investment funds used by members

Performance to 31 December 2023	Annualised returns (% p.a.)	
Fund name	1 year	5 years
Passive Global Equity Fund	16.8	12.9
Active UK Equity Fund	11.3	4.7
Diversified Growth Fund	5.4	3.2
Corporate Bond Fund	6.6	-2.5
Fixed Interest Gilt Fund	2.1	-6.5
Index-Linked Gilt Fund	2.2	-4.0
Cash Fund	4.5	1.3

Source: LGIM

A small number of members also hold Additional Voluntary Contributions ('AVCs') in the Clerical Medical With-Profits Fund. The returns of the With-Profits Fund are generated by the addition of annual and final bonuses (some of which may be at guaranteed rates), rather than reflecting the performance of the underlying assets within the fund. The net non-guaranteed bonus rate for 2023 was 0.10%.

3. Member borne charges and transaction costs

The Trustee is expected to explain (i) explicit charges (such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio ("TER")) and (ii) transaction costs (i.e. the costs of buying and selling investments in the Plan) which are paid by members.

Where information about member charges and costs is not available, the Trustee has to make this clear, together with an explanation of what steps being taken to obtain the missing information.

The default arrangements for the Plan during the period covered by this statement were the pre 97 Lifestyle investment strategy and the post 97 Lifestyle investment strategy. Though the charge cap of 0.75% does not apply to the Plan, the TER on the default arrangements has been well below 0.75% p.a. of assets under management for all members during the period 1 January 2023 to 31 December 2023.

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(i) Pre 97 Lifestyle investment strategy

The TER that a member paid over the year depends on their term to retirement as the allocation to underlying funds changes automatically over time. The TER ranges from 0.11% p.a. to 0.37% p.a.

Transaction costs ranged between 0.02% p.a. and 0.25% p.a. The total cost associated with the pre 97 Lifestyle investment strategy was between 0.13% p.a. and 0.62% p.a.

(ii) Post 97 Lifestyle investment strategy

The TER that a member paid over the year depends on their term to retirement as the allocation to underlying funds changes automatically over time. The TER ranges from 0.21% p.a. to 0.34% p.a.

Transaction costs ranged between 0.02% p.a. and 0.21% p.a. The total cost associated with the post 97 Lifestyle investment strategy was between 0.23% p.a. and 0.54% p.a.

(iii) Self-select investment funds

The Trustee makes seven self-select funds available to members for post 97 accrued funds. During the period 1 January 2023 to 31 December 2023 members were invested in one or more of these funds. The TER and transaction costs reported by LGIM for each fund over the period 1 January 2023 to 31 December 2023 are shown below:

Self-Select Fund	TER (% p.a.)	Transaction costs (% p.a.)
Passive Global Equity Fund	0.21	0.02
Active UK Equity Fund	0.71	0.51
Diversified Growth Fund	0.37	0.25
Corporate Bond Fund	0.16	0.00
Fixed Interest Gilt Fund	0.11	0.00
Index-Linked Gilt Fund	0.11	0.04
Cash Fund	0.13	0.10

Source: LGIM
Where transaction costs have been provided as a negative cost, these have been set to zero by the Trustee to avoid potentially understating the effect of charges on fund values over time.

A small number of members also hold AVCs in the Clerical Medical With-Profits Fund. Clerical Medical only discloses that the With-Profits Fund attracts an Annual Management Charge of 1.0% p.a.

(iv) Illustrations of the cumulative effect of costs and charges

The Trustee is also required to illustrate the effect of the costs and charges typically paid by members on their retirement values (as a "pounds and pence figure"). The Trustee has produced the following illustrations to demonstrate the effect of the above costs and charges on the value of typical Plan members savings over the period to retirement.

The illustrations 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 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 Plan they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

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The Trustee has not included illustrations for AVCs as their utilisation represents a very small proportion of the overall Plan. AVC funds do not receive new contributions, and it would be disproportionate to include these.

The illustrations are for the youngest Plan member and show a projection of the member's retirement savings at retirement age, with and without costs and charges applied. The Trustee has illustrated the impact of charges for assets invested in both the pre 97 Lifestyle investment strategy and post 1997 Lifestyle investment strategy. As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, the Trustee has also included some comparison figures for alternative self-select options available for funds accrued after 6 April 1997. The comparative figures show the projected retirement savings if the youngest Plan member were invested in the fund within the range offered by the Plan which attracts the lowest charges (Fixed Interest Gilts fund), and the fund which attracts the highest charges (Active UK Equity Fund).

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

Youngest Plan member

This member is 46 years old with 19 years to go until their retirement at age 65. The member has an average fund value of £72,100 in the pre-97 Lifestyle investment strategy and £55,500 in the post 97 Lifestyle investment strategy and comparator funds. There are no future contributions to be paid to any of the funds.

Pre 97 Lifestyle investment strategy

Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs) £	Effect of charges (TER and TCs) £
46	72,100	72,100	0	72,100	0
50	79,400	78,760	640	78,710	690
55	87,870	86,160	1,710	85,910	1,960
60	92,680	89,480	3,200	88,680	4,000
65	96,820	92,270	4,550	90,910	5,910

Post 97 Lifestyle investment strategy

Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs) £	Effect of charges (TER and TCs) £
46	55,500	55,500	0	55,500	0
50	61,120	60,630	490	60,590	530
55	67,640	66,320	1,320	66,130	1,510
60	71,520	69,070	2,450	68,470	3,050
65	75,550	71,960	3,590	70,960	4,590

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Fixed-Linked Interest Gilts Fund – Lowest cost self-select fund used by post 97 members

Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs) £	Effect of charges (TER and TCs) £
46	55,500	55,500	0	55,500	0
50	61,120	60,860	260	60,730	390
55	68,940	68,290	650	67,960	980
60	77,770	76,640	1,130	76,050	1,720
65	87,730	86,000	1,730	85,100	2,630

Active UK Equity Fund – Highest cost self-select fund used by post 97 members

Age	Estimated fund value (before charges) £	Estimated fund value (after TER) £	Effect of charges (TER) £	Estimated fund value (after TER and TCs) £	Effect of charges (TER and TCs) £
46	55,500	55,500	0	55,500	0
50	65,910	64,180	1,730	63,660	2,250
55	81,700	76,950	4,750	75,580	6,120
60	101,280	92,270	9,010	89,720	11,560
65	125,550	110,640	14,910	106,510	19,040

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

- Inflation is assumed to be 2.5% each year
- The assumed annual growth rates before deduction of charges used for each fund are as follows:

Passive Global Equity Fund	5.0%
Diversified Growth Fund	3.0%
Fixed Interest Gilt Fund	5.0%
Index-Linked Gilt Fund	5.0%
Corporate Bond Fund	3.0%
Cash Fund	1.0%
Active UK Equity Fund	7.0%

- The transaction costs have been averaged over a five-year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. 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.
- Data used is as at 31 December 2022.

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 Plan. The Trustee has followed this framework in carrying out this year's assessment.

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The prescribed assessment framework must involve a comparison of reported member borne costs and charges and net investment returns with three other larger schemes, and a consideration of key governance and administration criteria. The Trustee, working in conjunction with our advisers, Aon, has assessed the Plan relative to three Master Trust arrangements: the Aegon Master Trust, The People's Pension and the National Employment Savings Trust ('NEST'). A summary of the assessment is set out below.

(i) Costs and charges

The costs and charges that members pay in the Plan have been identified as the TER and transaction costs and are set out in section 3 of this statement. These have been compared to those that members may pay in the three comparator schemes selected. The assessment showed that the costs and charges members pay in the Plan are generally lower than the comparator scheme average.

Funds accrued in service before 6 April 1997 are subject to a GMP underpin whereby, at retirement, if the amount in their account is not sufficient to purchase a pension equal to the GMP, a top up payment would be made to their account by the Plan's sponsor. This GMP underpin is regularly applied and a top up payment is made for members who have this benefit.

The overall conclusion was that the costs and charges payable in the Plan do represent good value for members compared to the comparator schemes. In addition, the GMP underpin provides additional value for members with pre 97 benefits (since this would likely be lost upon any bulk transfer to an alternative arrangement such as one of the comparator schemes).

(ii) Net investment returns

The investment returns members achieved in the Plan, net of all member borne costs and charges, over the one and five year periods to 31 December 2023 have been compared to those that members may have achieved in the three comparator schemes.

The assessment showed that the net investment returns members achieved in the Plan were generally higher than the comparator scheme average other than for those members close to or at their target retirement age. Similar to the conclusion for the costs and charges, the Trustee concludes that the net investment returns for members of the Plan do represent good value for members compared to the comparator schemes, and the GMP underpin provides additional value for members where applicable.

(iii) Administration and governance

The Trustee has considered the benefits of membership under the following categories: Plan governance, investments, administration and member communications. These benefits are not benchmarked against the comparator schemes but are assessed by the Trustee.

Plan governance

The Trustee has engaged with their professional advisers regularly throughout the period to ensure that they exercise their functions properly and take professional advice where needed in the running of the Plan. There are two sub-committees in place to dedicate sufficient time to valuation and investment discussions. The Trustee will continue to check to ensure it is comfortable with the specific governance structure in place for the Plan. For example, administration processes and investment performance monitoring are adequately documented and evidenced. The Trustee will consider this area further over the next year, through gap analysis which they will undertake to ensure they comply and demonstrate an effective system of governance against the Pension Regulator's General Code which was released in 2024.

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Investments

The Plan offers two lifestyle strategies, one for funds accrued before April 1997 and one for funds accrued after April 1997. Since members' funds accrued before April 1997 are used to test against a GMP underpin and the sponsoring employer is required to make good any shortfall at retirement, members do not have the option to make their own investment selections for these funds. Members can choose their own investments for funds accrued after April 1997. The Trustee has put on hold changes following an investment strategy review in 2022 as it considers the overall strategy for the Plan.

Administration

The Trustee is satisfied that the Plan administrators have sufficient checks in place to monitor and report on the standard of the administration service and to ensure that when administrative errors do occur, members are not disadvantaged as a result. Administration processes and performance are monitored on a bi-annual basis and performance over the period has been good.

Member communications

The Trustee provides members with regular communications such as benefit statements and retirement wake-up packs. Whilst no formal communication strategy exists, the Trustee will consider the material available to members and update this where necessary to ensure this remains accurate.

The assessment concluded that the Plan overall does provide good value for members, particularly the benefits that are subject to the GMP underpin. The Trustee will focus on ensuring governance and processes are reviewed over the next Plan year, in accordance with the Pension Regulator's new General Code released in 2024.

5. Processing of core financial transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. As the Plan is closed to further contributions in respect of member's individual benefits, core financial transactions include, but are not limited to:

- Transferring assets relating to members into and out of the Plan;
- Transferring assets relating to members between different investments within the Plan; and
- Making payments from the Plan to or on behalf of members.

In practice, the Trustee delegates responsibility for this to the Plan's administrator, Aon, who report on transactions undertaken. There is a Service Level Agreement ('SLA') in place with Aon that covers timeframes and reporting on the core financial transactions listed above.

The Trustee has reviewed the key processes adopted by the administrator and output in order to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- A full member and Plan reconciliation being undertaken annually as part of the annual preparation of the Trustee report & financial statements
- Provision of half-yearly administration reports – enabling the Trustee to check core financial transactions and review processes relative to any member complaints made
- Common and conditional data reviews
- Documentation and operation in line with quality assurance policies and procedures, independently assessed via an AAF report which is a detailed quality assurance report on internal controls
- Operation in line with the business continuity plan and confirmation that the administrator has prioritised core financial transactions during this period.

APPENDIX II – CHAIR'S STATEMENT

The Trustee is satisfied that over the period:

- the administrator 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 during the Plan year.

6. Trustee knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Plan is managed by a Trustee board and has seven Trustee Directors. There are three Company appointed Trustee Directors (who hold, or prior to retirement held, senior positions within the Company), three member nominated Trustee Directors and a professional Trustee Director (BESTrustees). A new Member Nominated Trustee, M Robertson was appointed on 24 October 2023 and her term of office is due to expire at the end of 2028. The current terms for the other member nominated Trustee Directors are due to expire at the end of 2026.

The professional Trustee Director acts as a trustee across several different pension schemes and the employee who represents BESTrustees is an experienced trustee with many years of pensions experience and who undertakes continuous professional development throughout the year in line with the requirements of their professional organisation and BESTrustees. The composition of the Trustee board demonstrates diversification of skills and breadth and depth of pension knowledge.

The Trustee Directors 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:

- A training programme for newly appointed Trustee Directors including recommended completion of the Pension Regulator's Trustees toolkit, which is an online learning programme.
- Assessing training needs and identifying gaps in knowledge on topical subjects regularly.
- A target of fifteen hours a year additional training which may comprise of relevant training or reading, with Trustee Directors encouraged to complete two hours a month to meet this target.
- Undergoing regular training which over the Plan year included various Trustee Directors attending sessions covering DC value for money, smaller bulk annuity transfers, the perils of inflation and how to solve them, cybercrime governance and data law.
- Maintaining training logs for each Trustee Director which supports the above.

In addition, individual Trustee Directors attended a range of virtual conferences and seminars and received additional training from advisers through Trustee's meetings – four meetings in total were held during the year, including sub-committee meetings.

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The Trustee has 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 Plan documents such as the Trust Deed and Rules, Trustee Report and Financial Statements, SIP and documents setting out the Trustees' current policies. A few of the areas that support this statement are set out below:

- Production of an Implementation Statement that sets out how certain policies in the SIP have been followed and describes the voting behaviour on behalf of the Trustee over that year
- Sign off of the Trustee Report and Financial Statements
- The law relating to pensions and trusts through updating the risk register
- Review of bi-annual administration reports to monitor service delivery against agreed service levels standards and assessing the member experience
- Reviewing investment strategy and performance.

The Trustee Directors consider that they meet the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustee of the Plan.

Signed by the Chair on behalf of the Trustee of the Townsend Hook Defined Contribution Plan

Name	John Hiscock
Signature	DocuSigned by: John Hiscock 06EF789BEF8B441...
Date	Jul 25, 2024