

APPENDIX 1 - DC GOVERNANCE STATEMENT

SUMMARY

This statement demonstrates how the Trustee of the Scheme (the "Trustee") has met the legal requirements that cover the Defined Contribution ("DC") benefits held in the Scheme over this reporting period.

The Trustee believes that it has taken the necessary steps to ensure compliance with the governance standards.

In evaluating the costs and charges against the benefits of the DC arrangements, the Trustee has concluded that the Scheme's DC arrangements represent good value for members.

INTRODUCTION

This statement has been prepared by the Trustee in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the "Regulations"). It covers the Scheme year ended 5 April 2023 (being the period between 6 April 2022 and 5 April 2023 (the "Scheme Year")). The previous statement covered the Scheme Year ended 5 April 2022.

By law, this statement is required to cover:

1. Default arrangements and their governance;
2. Net investment returns;
3. Disclosure of member-borne charges and transaction costs and example illustrations;
4. Assessment of value for members;
5. Processing of core financial transactions;
6. Trustee knowledge and understanding.

The Scheme is a Defined Benefit ("DB") scheme closed to future accrual. There are DC arrangements within the Scheme which provide supplementary benefits to certain members. The DC arrangements comprise policies with a number of providers in respect of members who made Additional Voluntary Contributions ("AVCs"), funds held for members who have transferred benefits from schemes relating to previous employments and additional contributions made by the employer in respect of senior employees ("the MPS section"). No contributions have been accepted into these arrangements since 31 October 2009, although where the arrangement contained different investment options, the ability to switch between funds still remains.

The value of the Scheme's DC assets amounted to £0.8m as at 5 April 2023 compared to aggregate assets of £1,194m.

During the Scheme Year the Trustee gave members holding with-profits investments with Prudential the option to move to unit-linked funds with L&G. No members elected to transfer.

1. DEFAULT ARRANGEMENT

The Scheme is not used as a qualifying scheme for automatic enrolment and no contributions have been paid to the DC arrangements since the requirements relating to preparing Chair's Statements in accordance with the Regulations came into effect. Furthermore, prior to the closure of the Scheme to future contributions, members were required to select the fund or funds used for their DC investments. As such, there is no default arrangement and therefore the requirements of Section 2A of the Occupational Pension Schemes (Investment) Regulations 2005 do not apply. As there is no default arrangement, the Trustee does not maintain a separate Statement of Investment Principles for the DC arrangements to attach or review.

2. NET INVESTMENT RETURNS

The Trustee is required to report net investment returns for each investment option that members were invested in during the Scheme Year. Net investment returns are the returns on funds after the deduction of any member-borne charges and transaction costs relating to those investments.

The net investment returns shown in the table below have been prepared having regard to statutory guidance. For arrangements where the net returns vary with age the guidance states that net investment returns should be shown for a member aged 25, 45 and 55 at the start of the investment reporting period. For the L&G Cash Lifestyle Strategy, the underlying assets change over time but these changes take place from three years before retirement. If we assume a retirement age of 65, the net returns for this strategy (and all other fund options) are therefore the same irrespective of whether the member was age 25,45 or 55 at the start of the investment reporting period, so there is no need to show returns for these different age groups in this statement.

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

| Performance to 31 March 2023 | Investment return | | |
|--|-------------------|------------------|------------------|
| | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) |
| L&G | | | |
| Cash Lifestyle Strategy (member aged 25, 45 or 55 at start of investment reporting period) | -5.8 | 5.7 | 3.6 |
| World Equity Index | -8.4 | 14.7 | Not available |
| Future World | -2.7 | 14.5 | 8.9 |
| UK Equity Index | 2.0 | 13.8 | 4.9 |
| Global Real Estate Equity Index | -18.4 | 6.2 | Not available |
| Multi-Asset | -5.8 | 5.7 | 3.6 |
| Future World Multi-Asset | -5.8 | 5.5 | -0.3 |
| Future World Annuity Aware | -20.6 | -9.0 | -3.6 |
| All Stocks Index-Linked Gilts | -26.1 | -9.0 | -3.5 |
| Cash | 1.9 | 0.4 | 0.4 |
| Phoenix Life | | | |
| Deposit Administration | 0.0 | 0.0 | 0.0 |
| Prudential | | | |
| With Profits Cash Accumulation | 1.5 | 1.1 | 1.2 |

Source: Providers and Financial Express Analytics

Notes

Investment returns for the L&G World Equity Index and the L&G Global Real Estate Equity Index are not shown for the five year period as these funds were launched less than five years ago.

For the Phoenix Life Deposit Administration Fund and the Prudential With Profits Fund, the net investment returns shown above are the bonus rates declared on these funds over the relevant period. Whilst, in practice, for the Prudential With Profits Fund the Trustee would expect a terminal bonus to increase returns to close to the returns achieved by the underlying assets of the With Profits Fund over the period held (after all costs of running the fund, 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 the With Profits Fund at any time other than at maturity date, or in the event of death before retirement.

3. MEMBER-BORNE CHARGES AND TRANSACTION COSTS

The Trustee monitors the level of costs and charges borne by members through the DC arrangements annually. In accordance with the Regulations, the Trustee has disclosed the “charges” and “transaction costs” borne by members of the Scheme during the Scheme Year covered by this statement.

Charges

For these purposes, “charges” means administration charges other than transaction costs, costs relating to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs and costs associated with the provision of death benefits.

For the unit-linked funds invested in by members, the charges set out below are made up of the annual management charge, the fund management charge and additional expenses that are taken by adjustment of the daily unit price for the fund. These charges make up the total expense ratio (“TER”) which represents the costs associated with operating and managing an investment fund. For with profits funds, typically the charges are not explicit; the cost of operating and managing the fund is reflected in the annual bonus rate declared on the fund.

Transaction costs

In the context of this statement, the transaction costs are those costs incurred as a result of buying, selling, lending or borrowing investments.

The Trustee has set out the charges, or TER, and transaction costs that have been incurred by members during the Scheme Year in the table below.

All costs and charges have been supplied by the providers. Any negative transaction costs have been set to zero by the Trustee, in accordance with the relevant guidance to avoid potentially understating costs.

None of the providers have been able to provide transaction costs for the Scheme Year in time to be included in this Statement. The latest transaction costs available from the providers are therefore shown in the table below. These are for the 12-month period to 31 December 2022 for L&G, and for the 12-month period to 30 June 2022 for Prudential. Phoenix Life has not provided any transaction cost information. The Trustee hopes that the providers will become quicker at calculating transaction costs in future, so that the transaction costs for the Scheme Year can be included in future Chair’s Statements. However, there is no certainty that this will happen.

| Provider/Fund | TER (%) | Transaction costs (%) |
|---------------------------------|--|--|
| L&G | | |
| Cash Lifestyle Strategy | 0.43 – 0.47 (depending upon term to retirement) | 0.00 - 0.05 (depending upon term to retirement) |
| World Equity Index | 0.46 | 0.07 |
| Future World | 0.58 | 0.11 |
| UK Equity Index | 0.44 | 0.04 |
| Global Real Estate Equity Index | 0.53 | 0.07 |
| Multi-Asset | 0.47 | 0.05 |
| Future World Multi-Asset | 0.50 | 0.07 |
| Future World Annuity Aware | 0.46 | 0.08 |
| All Stocks Index-Linked Gilts | 0.42 | 0.18 |
| Cash | 0.43 | 0.00 |
| Phoenix Life | | |
| Deposit Administration | Not applicable ¹ | Not available ² |
| Prudential | | |
| With Profits | 1.04 ³ | 0.17 |

Source: Providers

¹ There are no explicit charges on the Phoenix Life Deposit Administration Fund.

² The Trustee requested the most recent transaction cost information from Phoenix Life but at the time of writing this statement, no transaction costs have been provided by Phoenix Life.

³ For the Prudential With Profits Fund, a charge is deducted through the bonus mechanism. This is currently estimated to be 1.04% p.a. assuming future investment returns in the With Profits Fund are 5.00% p.a. When expressed as a percentage, the charges on with profits business depend on the performance of the With Profits Fund and, in particular, the investment returns achieved and the expenses incurred.

Example illustrations of the impact of fund costs and charges on members' DC fund values

The Trustee is required to illustrate the effect of the costs and charges typically paid by members on the value of their fund or funds at retirement (as a "pounds and pence figure").

The Regulations allow the Trustee to exercise its discretion with regards to the illustrative 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.

The Trustee has taken account of the statutory guidance when preparing these illustrations. Illustrations have been provided to demonstrate the effect of costs and charges for more than one investment strategy in the L&G arrangement, in order to show the effect of different charges for the funds (including those with the highest and lowest charges). The growth assumptions used for funds are consistent with those used by the providers in annual benefit statements. Transaction costs have been averaged over a two-year period in line with statutory guidance to reduce the level of volatility. Wherever transaction costs were reported to be negative, they have been set to zero for the purposes of these illustrations.

These illustrations are based on a number of assumptions about the future which are set out in the notes under the tables 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 Trustee has not provided illustrations for the Phoenix Life Deposit Administration Fund because there is only one member invested in this fund and therefore their annual benefit statement provides a more accurate projection of future benefits.

For the L&G arrangement:

- Example member 1: the youngest member (age 41) who is therefore 24 years from their retirement age of 65 with a current fund of £950
- Example member 2: a member of average age (age 60) who is therefore five years from their retirement age of 65 with a current fund of £3,250

The effect of costs and charges on the Cash Lifestyle Strategy, the Future World Fund (the fund with the highest charges) and the Cash Fund (the fund with the lowest charges) have been illustrated, as these are the investment options with the most assets under management and the highest and lowest charges, respectively.

The examples below illustrate the effect of the costs and charges at different ages on these example members' projected retirement pots.

Example member 1:

For the youngest member, the estimated impact of costs and charges on the accumulated fund values is shown in the table below.

| Years to retirement | Cash Lifestyle Strategy | | | Future World Fund (highest cost) | | | Cash Fund (lowest cost) | | |
|---------------------|-------------------------|---------------|-------------------|----------------------------------|---------------|-------------------|-------------------------|---------------|-------------------|
| | Fund value | | Impact of charges | Fund value | | Impact of charges | Fund value | | Impact of charges |
| | before charges | after charges | | before charges | after charges | | before charges | after charges | |
| 24 | £950 | £950 | £0 | £950 | £950 | £0 | £950 | £950 | £0 |
| 20 | £1,100 | £1,080 | £20 | £1,130 | £1,100 | £30 | £980 | £960 | £20 |
| 15 | £1,320 | £1,270 | £50 | £1,400 | £1,320 | £80 | £1,010 | £980 | £30 |
| 10 | £1,580 | £1,490 | £90 | £1,730 | £1,590 | £140 | £1,040 | £990 | £50 |
| 5 | £1,900 | £1,750 | £150 | £2,150 | £1,910 | £240 | £1,080 | £1,010 | £70 |
| 0 | £2,210 | £2,000 | £210 | £2,660 | £2,300 | £360 | £1,120 | £1,020 | £100 |

Example member 2:

For the member of average age, the estimated impact of costs and charges on the accumulated fund values is shown in the table below.

| Years to retirement | Cash Lifestyle Strategy | | | Future World Fund (highest cost) | | | Cash Fund (lowest cost) | | |
|---------------------|-------------------------|---------------|-------------------|----------------------------------|---------------|-------------------|-------------------------|---------------|-------------------|
| | Fund value | | Impact of charges | Fund value | | Impact of charges | Fund value | | Impact of charges |
| | before charges | after charges | | before charges | after charges | | before charges | after charges | |
| 5 | £3,250 | £3,250 | £0 | £3,250 | £3,250 | £0 | £3,250 | £3,250 | £0 |
| 0 | £3,780 | £3,700 | £80 | £4,030 | £3,910 | £120 | £3,360 | £3,300 | £60 |

For the Prudential arrangement:

- Example member 3: the youngest member (age 50) who is therefore 15 years from their retirement age of 65 with a current fund of £300
- Example member 4: a member of average age (age 56) who is therefore 9 years from their retirement age of 65 with a current fund of £900

Example member 3:

The example below illustrates the effect of the costs and charges at different ages on this example members' projected retirement pot.

| Years to retirement | Prudential With Profits Fund | | |
|---------------------|------------------------------|---------------|-------------------|
| | Fund value | | Impact of charges |
| | Before charges | After charges | |
| 15 | £300 | £300 | £0 |
| 10 | £350 | £330 | £20 |
| 5 | £420 | £370 | £50 |
| 0 | £490 | £420 | £70 |

Example member 4:

The example below illustrates the effect of the costs and charges at different ages on this example members' projected retirement pot.

| Years to retirement | Prudential With Profits Fund | | |
|---------------------|------------------------------|---------------|-------------------|
| | Fund value | | Impact of charges |
| | Before charges | After charges | |
| 9 | £900 | £900 | £0 |
| 5 | £1,030 | £980 | £50 |
| 0 | £1,210 | £1,100 | £110 |

Notes

- Projected fund values shown are estimates and are not guaranteed (they have been rounded to the nearest £10);
- Representative members are based upon the Scheme's membership as at 2 May 2023 for the L&G arrangement and as at 31 March 2023 for Prudential;
- The illustrations assume no further contributions are paid;
- The illustrations are shown in today's terms, and do not need to be reduced further for the effect of inflation which is assumed to be 2.5% p.a.;
- A floor of 0.00% p.a. has been used for transaction costs if these were negative so as not to potentially understate the effect of charges on fund values over time;
- The projected growth rates and costs and charges assumed in the illustrations are as follows:

| Strategy / Fund | Growth rate | Costs and charges |
|-----------------------------|--|--|
| L&G Cash Lifestyle Strategy | 3.2% – 6.3% p.a. depending upon term to retirement | 0.38% – 0.45% p.a. depending upon term to retirement |
| L&G Future World Fund | 7.0% p.a. | 0.66% p.a. |
| L&G Cash Fund | 3.2% p.a. | 0.38% p.a. |
| Prudential | 5.9% p.a. | 1.13% p.a. |

4. VALUE FOR MEMBERS

The Trustee's value for members assessment framework considers both the costs and benefits of membership of the DC arrangements.

The costs and charges on all strategies and funds in which members are invested over the period are considered in order to evaluate the costs of membership.

In relation to the benefits of membership, the Trustee has identified five core benefit categories of value for members as follows:

- **Scheme governance** – The Trustee believes that good governance is important to ensuring that a framework exists and is actively in use to help deliver better member outcomes. Only strong and stable providers should be appointed as this is important for the long-term outcome of members' benefits. The use of safeguards and controls to manage operational risk is important and the number of errors should be minimised and any impact from errors should be corrected to put members back in the position they should have been in.
- **Investments** – The Trustee considers a well-designed investment portfolio, which is subject to regular monitoring, and a varied range of investment funds, with appropriate charging structures, to be important to delivering better member outcomes. The Trustee believes it is important that performance of funds, over the long term, is in line with their market sector.
- **Administration** – The Trustee considers that good administration and record keeping play a crucial role in ensuring that Scheme members receive the fund or income that is due to them. In addition, the type and quality of service experienced by members has a bearing on the level of member engagement.
- **Member communications** – The Trustee considers effective member communications, and delivery of the right support and tools to help members improve their outcomes, to be essential to aid member understanding.
- **Retirement options** – The Trustee believes it is important to have retirement processes that enable members to make informed decisions and select appropriate option(s) at retirement.

The Trustee has reviewed the above five core benefit categories and its assessment is summarised as follows:

Scheme governance: The Trustee has suitable governance monitoring in place. Core financial transactions and other key governance metrics are monitored quarterly. Regular meetings are held with the administrator to discuss and progress areas of the administration that require input from the Trustee. The adequacy and effectiveness of governance and control over Data

Protection, Information Security and Cyber Security is periodically reviewed by Smiths Pensions. The Trustee has a Risk and Audit Committee, which also reviews the risks relating to the DC arrangements annually, as part of the Scheme's risk assessment framework. An annual review, using professional advisers, is undertaken which assesses the financial strength of providers and the suitability and relevance of the DC arrangements and whether they represent value for members.

Investments: The Scheme offers an appropriate range of investment options to members which have been agreed, following advice from the Scheme's investment adviser, with the specific needs of members in mind. The Trustee has pro-actively consolidated unit-linked funds where possible, to improve value for members. With Profits and the Deposit Administration funds have been retained as the Trustee believes members are likely to value the guarantees they provide.

Administration: The Trustee and its Administration and Data Committee monitor the administration of members' DC benefits. The Trustee is satisfied that the Scheme administrator and the DC providers have robust systems and the capability to process financial transactions promptly and accurately in line with the agreed service levels and relevant regulatory requirements. Mercer provides a member helpline and the member experience is monitored through call statistics, complaint details and surveys that members are asked to complete after contacting the helpline.

Member communications: The Scheme website (pensions.smiths.com) hosts a variety of information and documents and L&G provides a website for members of the L&G arrangement (legalandgeneral.com/workplace/s/smiths-group-ti). The Trustee includes reminders for members to monitor their DC funds in the annual newsletter and, where concerns are raised regarding a particular fund or provider, these concerns are communicated to affected members and alternative available options are set out.

Retirement options: The Trustee allows the proceeds arising from the DC arrangements to be taken as part of the tax-free cash sum or, in certain circumstances, to purchase a pension in the Scheme at retirement. The conversion factors are such that, in many cases, they are expected to be more favourable than annuity rates available elsewhere in the market, which enhances member outcomes at retirement. The Trustee provides access to a Scheme Independent Financial Adviser to support members in understanding the options available to them (with the member being required to meet the subsidised cost).

Costs and charges: In evaluating the costs and charges borne by members against the benefits of the DC arrangement, the Trustee has undertaken a benchmarking exercise to compare costs and charges against expectations. The table below sets out the current TERs for each of the unit-linked funds held at the end of the Scheme Year along with the Trustee's adviser's expected range for each asset class considering structure, investment style and assets under management.

A Red/Amber/Green ("RAG") rating based on the following methodology is assigned to each fund.

GREEN – Lower 50th percentile **AMBER** – Upper 50th percentile **RED** – Outside of expected range.

| L&G Fund | TER (% p.a.) | Expected range (% p.a.) | RAG |
|-------------------------------------|--------------|-------------------------|-------|
| World Equity Index | 0.46 | 0.40 – 0.70 | GREEN |
| Future World | 0.58 | 0.50 – 1.00 | GREEN |
| UK Equity Index | 0.44 | 0.40 – 0.70 | GREEN |
| Global Real Estate Equity Index | 0.53 | 0.40 – 0.70 | GREEN |
| Multi-Asset | 0.47 | 0.55 – 1.60 | GREEN |
| Future World Multi-Asset | 0.50 | 0.55 – 1.60 | GREEN |
| Future World Annuity Aware | 0.46 | 0.50 – 0.90 | GREEN |
| All Stocks Index-Linked Gilts Index | 0.42 | 0.40 – 0.70 | GREEN |
| Cash | 0.43 | 0.40 – 0.70 | GREEN |

Based on the information and the circumstances outlined above, the Trustee has concluded that during the Scheme Year, the Scheme's DC arrangements represented good value for members and charges were lower or in line with the charges for similar schemes.

Further information is available in respect of the DC arrangements and investments on request by contacting Mercer as follows:

Online: contact.mercer.com

Phone: 0121 452 3739

By Post: Mercer
Maclaren House
Talbot Road
Stretford
Manchester
M32 0FP

Information can also be obtained by visiting pensions.smiths.com where further details of the value for member assessment can be found.

5. CORE FINANCIAL TRANSACTIONS

As no contributions are made into the Scheme's DC arrangements, core financial transactions include (but are not limited to):

- Transfers out of individual DC funds to other registered pension schemes;
- Transfers of individual DC funds into other policies within the Scheme;
- Switches of assets between funds in the same policy; and
- Payments of benefits in the policy to, or in respect of, members.

The Trustee has overall responsibility for such transactions, which are administered by the Scheme's appointed administrator ("Mercer") and the providers of the Scheme's DC arrangements.

Controls and processes

Mercer and the DC providers process benefits in accordance with their internal processes and controls.

Mercer operate a peer review process to ensure the accuracy of financial transactions and that the transactions are approved by appropriately authorised individuals. These controls are independently audited and reported on in Mercer's AAF 01/06 internal controls and assurance report, which is periodically reviewed by the Trustee.

Transaction timescales

The Trustee has service level agreements in place with Mercer and L&G which include timescales in which to undertake all core financial transactions. Depending on the type of transaction being processed, the service level is between one and ten days.

The Trustee monitors Mercer and the DC providers to ensure that core financial transactions have been processed promptly and accurately by:

- Reviewing the respective AAF 01/06 reports;
- Obtaining quarterly administration reports from Mercer, which include reporting on service level standards (noting that these service levels cover both DB and DC benefits);
- Obtaining annual updates from the DC providers on service level standards; and
- Maintaining a close working relationship with Mercer and obtaining feedback from them regarding the DC providers.

In summary, the Trustee is satisfied that the Scheme administrator and the DC providers have robust systems and the capability to process financial transactions promptly and accurately, in line with the agreed service levels where relevant, and requirements of regulation 24 of the Regulations. If timescales are missed, Mercer monitor any impact on the members to make sure there is no financial loss.

6. TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Scheme is a DB scheme with the DC arrangements making up a small proportion of the benefits being provided. The Trustee Board's knowledge and understanding requirements are met with this in mind.

The requirement under sections 247/248 of the Pensions Act 2004, for the Trustee to demonstrate appropriate knowledge and understanding has been met during the Scheme Year by:

- Maintaining a working knowledge of the Scheme's Trust Deed & Rules, Statement of Investment Principles, and documented Trustee's policies, as well as pension and trust law and funding and investment principles. During the Scheme Year, the directors have received updates during formal Trustee Board meetings relating to current investment matters. Policies and risk assessments are reviewed by the Trustee or its Committees on a rolling basis, and updated documents have been made available to all directors during the Scheme Year;
- Encouraging all directors to complete and keep up to date with the Pension Regulator's trustee toolkit; which is a series of online learning modules developed to help trustees meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004. All directors have completed the toolkit, and all directors have completed the updated Scams module;
- Identifying knowledge gaps that directors have and arranging for training to be provided;
- Providing appropriate tailored training to directors. Whilst all directors have received general investment related training, no specific training relating to DC investments was received during the Scheme Year;
- Providing regular updates to all directors on current developments (for example, on developments relating to DC arrangements from both legal and investment advisers at Trustee meetings); the directors received and reviewed an update on current developments during Trustee Board meetings during the Scheme Year;
- Maintaining training logs which are reviewed annually; and
- Carrying out an annual review of the suitability and appropriateness of the DC arrangements in the Scheme in the light of advice from an investment consultant.

The Trustee also carries out ad-hoc evaluations of the performance and effectiveness of the Board as a whole with the support of an independent adviser. A log of all training undertaken by the directors is maintained by Smiths Pensions and is reviewed in detail on an annual basis, usually during the March Trustee Board meeting, to ensure it is up to date and that knowledge gaps are identified by each director carrying out a self-evaluation.

The Trustee is satisfied that, through the above, it meets the requirements for having, or having access to, sufficient knowledge and understanding to manage the Scheme, including the DC arrangements, effectively.

Through the above, the combined knowledge and understanding of the directors of the trustee company, together with the advice which is available to them, enables the Trustee to properly exercise its functions.

CONCLUSION

The Trustee of the Scheme has reviewed and assessed the systems, processes and controls across key governance functions and concluded that they are consistent with those set out in the Regulations, the Pensions Regulator's Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes; and the regulatory guidance for DC schemes.

Based on its assessment, the Trustee believes that it has adopted the standards of practice set out in the DC code and DC regulatory guidance.

This statement regarding DC governance was approved by the Trustee and is signed on its behalf by

Chris Surch
Chair of TI Pension Trustee Limited
Date: 30 August 2023