

# 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 2024 (being the period between 6 April 2023 and 5 April 2024 (the “Scheme Year”). The previous statement covered the Scheme Year ended 5 April 2023.

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 Defined Contribution (“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 offers more than one investment fund, the ability to switch between funds still remains.

The value of the Scheme’s DC assets amounted to £0.8m as at 5 April 2024 compared to aggregate assets of £1,055m.

## 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. The Scheme’s Statement of Investment Principles can be found here: [pensions.smiths.com/ti-group-pension-scheme/statement-of-investment-principles](https://pensions.smiths.com/ti-group-pension-scheme/statement-of-investment-principles).

## 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 Legal & General (“L&G”) Cash Lifestyle Strategy, the underlying assets do 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.

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

Performance to 31 March 2024	Investment return		
	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
<b>L&amp;G</b>			
Cash Lifestyle Strategy (member aged 25, 45 or 55 at start of investment reporting period)	8.3	2.0	3.9
World Equity Index	21.7	10.0	10.7
Multi-Asset	8.3	2.0	3.9
Cash	4.8	2.1	1.3
<b>Phoenix Life</b>			
Deposit Administration	0.0	0.0	0.0
<b>Prudential</b>			
With Profits Cash Accumulation	2.5	1.6	1.4

Source: Providers and Financial Express Analytics

### Notes

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. Phoenix Life has not added a bonus to the Deposit Administration Fund in the last five years so the net investment return is zero. Whilst, in practice we would expect the terminal bonus to increase returns to those achieved by the underlying assets (less 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, investment management charges, 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 members invested in over the Scheme Year, the charges set out below are made up of the annual management charge which is paid by cancellation of units, and 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 2023 for L&G and the 12-month period to 30 June 2023 for Prudential. Phoenix Life has not provided transaction costs for any period within the Scheme Year at the time of writing this report. 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 (%)
<b>L&amp;G</b>		
Cash Lifestyle Strategy	0.43 – 0.47 (depending upon term to retirement)	0.0 – 0.02 (depending upon term to retirement)
World Equity Index	0.46	0.03
Multi-Asset	0.47	0.02
Cash	0.43	0.00
<b>Phoenix Life</b>		
Deposit Administration	Not applicable <sup>1</sup>	Not available
<b>Prudential</b>		
With Profits Cash Accumulation	1.11 <sup>2</sup>	0.17

Source: Providers

### Notes

<sup>1</sup> There are no explicit charges on the Phoenix Life Deposit Administration Fund.

<sup>2</sup> For the Prudential With Profits Fund, the costs of running the Fund are taken into account when the bonus rate is declared. Prudential currently estimates running costs to be 1.11% p.a., however the charge is not guaranteed at this level, and may change in the future.

### 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 L&G in annual benefit statements. Transaction costs have been averaged over a three-

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 or the Prudential With Profits Fund because there was only one member invested in each of these arrangements at the end of the Scheme Year. Members of these arrangements should therefore refer to their annual benefit statement for a more accurate projection of future benefits.

**For the L&G arrangement:**

- Example member 1: the youngest member (age 42) who is therefore 23 years from their retirement age of 65 with a current fund of £1,730;
- Example member 2: a member of average age (age 60) who is therefore 5 years from their retirement age of 65 with a current fund of £3,640;

The effect of costs and charges on the Cash Lifestyle Strategy (which is the strategy within which members are invested unless they self-selected investment funds), the Multi-Asset Fund (which is the fund with the highest costs and charges, ignoring funds which have no members invested) and the Cash Fund (the fund with the lowest costs and charges) have been illustrated, in accordance with the guidance.

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			Multi-Asset Fund (highest costs and charges)			Cash Fund (lowest costs and charges)		
	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	
23	£1,730	£1,730	£0	£1,730	£1,730	£0	£1,730	£1,730	£0
20	£1,760	£1,730	£30	£1,760	£1,730	£30	£1,660	£1,630	£30
15	£1,800	£1,730	£70	£1,800	£1,730	£70	£1,540	£1,490	£50
10	£1,840	£1,730	£110	£1,840	£1,730	£110	£1,430	£1,350	£80
5	£1,890	£1,730	£160	£1,890	£1,730	£160	£1,330	£1,230	£100
0	£1,890	£1,700	£190	£1,930	£1,730	£200	£1,230	£1,120	£110

## 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			Multi-Asset Fund (highest costs and charges)			Cash Fund (lowest costs and charges)		
	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	£3,640	£3,640	£0	£3,640	£3,640	£0	£3,640	£3,640	£0
0	£3,650	£3,570	£80	£3,730	£3,640	£90	£3,380	£3,310	£70

## 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 5 April 2024;
- 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.;
- Transaction costs have been averaged over a three-year period to reduce the level of volatility and a floor of 0.0% 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.
- Growth rates are consistent with those used by the providers in members' annual benefit statements;
- 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	1% to 3% p.a. (depending upon term to retirement)	0.43% to 0.5% p.a. (depending upon term to retirement)
L&G Multi-Asset Fund	3% p.a.	0.5% p.a.
L&G Cash Fund	1% p.a.	0.43% 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 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	0.42	0.40 – 0.70	GREEN
Cash	0.43	0.40 – 0.70	GREEN

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 so 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 an 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 matters 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. During the Scheme Year, the Trustee completed

an exercise to transfer the With Profits Funds held with Prudential to the Scheme's L&G arrangement, unless members opted out of the transfer, in preparation for achieving its longer-term goal to buy out the Scheme. The Phoenix Life policy has been retained at this stage.

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. Aptia 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](http://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](http://legalandgeneral.com/workplace/s/smiths-group-ti)). The Trustee includes reminders for members to monitor their DC funds in the annual newsletter and, if 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 on the open 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. Although members are required to meet the cost of this, the costs are lower than they would be if the member appointed their own adviser.

**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, investment returns were in line with the market 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 Aptia as follows:

Online: [pensionuk.aptia-group.com](http://pensionuk.aptia-group.com)

Phone: 0121 452 3739

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

Information can also be obtained by visiting [pensions.smiths.com](http://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;
- 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 ("Aptia") and the providers of the Scheme's DC arrangements.

## **Controls and processes**

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

Aptia 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 Aptia'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 Aptia 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 Aptia 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 Aptia, 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;
- Maintaining a close working relationship with Aptia 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, Aptia 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;
- 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, other than in advance of making any decisions;
- 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;
- 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 and the regulatory guidance.

Based on its assessment, the Trustee believes that it has adopted the standards of practice set out in the regulatory guidance and that it has met the Pensions Regulator's expectations for DC schemes.

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: 20 August 2024