

SFS Group Fastening Technology Limited Retirement Benefits Scheme

Chair's Statement

1 April 2023 to 31 March 2024

01 Introduction

This is the Chair's Statement for the SFS Group Fastening Technology Limited Retirement Benefits Scheme (the 'Scheme') covering the period 1 April 2023 to 31 March 2024.

As the Chair of the Trustee Board ('the Trustee'), I provide you with a yearly statement which explains what steps have been taken by the Trustee, with help from our professional advisers, to look to meet the required governance standards. The law sets out what information must be included in my Statement, and this is designed to help members achieve a good outcome from their pension savings.

The SFS Group Fastening Technology Limited Retirement Benefits Scheme was established to provide retirement benefits for the Company's employees. The operation of the Scheme is governed by the definitive trust deed dated 1 March 1988 and subsequently amended by a number of supplementary deeds. The Scheme is a hybrid arrangement, and some of the defined contribution ('DC') section members have a defined benefit ('DB') underpin.

The DC section of the Plan is formed by a single investment option provided by Royal London called the Crest Secure Pension Plan. Some of the members also have DB underpin benefits in the form of a Guaranteed Minimum Pension (GMP).

The Plan closed to new members and contributions on 1 August 2006.

This Plan is not a qualifying workplace pension scheme for the purposes of auto-enrolment and does not require or operate a default investment strategy for its members.

If you have questions about anything that is set out below or queries about your Plan benefits, please do contact Royal London via the following link:

- <https://www.royallondon.com/existing-customers/contact-us/>

02 Investment Performance

02.01 Investments

Members of the Scheme are invested in the Royal London Crest Secure Plan and do not currently have any other range of funds available to them to choose their own investment strategy.

The Crest Secure Fund is a policy held with Royal London and operates in a similar format to a with profits fund but with lower exposure to the stock market. As a result, there is no terminal bonus although a regular bonus is added to the fund's value. The Fund has a guaranteed minimum growth rate (which is 0%). The aim of the investment strategy is to maximise the long-term return on investments for policyholders whilst recognising the need for the fund to meet its guaranteed liabilities.

The Trustee has delegated the underlying investment management to Royal London. It is the responsibility of the Trustee however to review the suitability of Royal London as the Investment Manager and the current fund selection. The Trustee is also responsible for monitoring the age demographic of the members, as well as the members' fund values when considering the suitability of the fund range as part of any investment strategy review.

As at 31 March 2024, the Scheme has around £534,485 invested in the DC section in respect of the deferred members individual accounts.

02.02 Investment Fund Performances

The table below shows the fund performance of the Crest Secure Plan over the last one, three and five years with a normal retirement age of 65. The performance figures are net of charges and transaction costs and have been annualised where the period shown is longer than one year. The Trustee has had regard to the statutory guidance in preparing this section of the statement. The Trustee will arrange for relevant parts of this section to be published online and utilise the standard set of communications provided by Royal London to comply with the requirements to notify members about this information in the Annual Benefit Statements.

	1 year (01/04/2023 – 31/03/2024)	3 years (01/04/2021 – 31/03/2024)	5 years (01/04/2019 – 31/03/2024)
Crest Secure	1.05%	1.05%	1.50%

Source: Royal London

The current interest rate for the Crest Secure Plan is 0.25% however an enhancement of 0.80% p.a. is applied, therefore the overall rate of return has been provided in the table above.

03 Charges and transaction costs

03.01 Investment Manager Charges

The level of charges borne by members during the plan year amounts to 1.45%. The charges associated with the Crest Secure Plan have been confirmed by Royal London at the time of writing this Statement.

Total Expense Ratio ('TER')

Members meet what is known as the Total Expense Ratio ('TER') in respect of their individual pension pots. This is comprised of an annual Fund Management Charge ('FMC') and other indirect fees which are incurred. The TER is calculated as a percentage of all applicable assets under management.

The FMC does not include other costs of running the Plan outside of administration and investment management.

Transaction costs

The Trustee is also required, as far as is reasonable and practical, to calculate the transaction costs paid by members during the assessment period and assess the extent to which these transaction costs represent good value for members. Transaction costs are incurred when investments are bought and sold. Since investment requires the buying and selling of assets, transaction costs are an essential part of generating investment returns on behalf of Plan members and managing risk.

Royal London have confirmed that there are currently no transaction costs applied to the Crest Secure Plan. The costs and charges applicable to the Scheme are set out in the table below, as at 31 March 2024.

	TER (%)	Transaction cost (%)
Crest Secure	1.45	0.00

Source: Royal London

Charges and transaction costs continued

03.02 An illustration of the charges levied on members

Below you can find illustrations showing the possible effect of the costs and charges met by members on an example pension pot (for members in the DC section) over time. This is for illustration purposes only. The projected figures are not guaranteed, and actual returns earned and member fund values are likely to be different. Illustrations are shown for members invested in the Crest Secure Plan.

	Default Strategy	
Investment return (pa)	2.84%	
Charges	0.000%	1.45%
Years to Normal Retirement Age	DC Pension Pot (before charges)	DC Pension Pot (after charges)
10	£10,279	£10,279
5	£9,763	£8,728
0	£9,273	£7,410

The following assumptions have been used to prepare the illustrations:

- An initial pension pot of £10,279, which was the average pot size during the Plan year.
- The member is currently 10 years from Normal Retirement Date.
- The cost for investing in the Crest Secure fund is 1.45% p.a.
- The expected return for the Crest Secure Fund is assumed to be 2.84% p.a., which is based on Royal London SMPI figures and growth rates.
- Inflation of 2.50% p.a.

Projected pension pot values are shown in terms of current prices.

The Trustee notes that the Crest Secure Fund figures show that returns in this fund may not keep up with inflation. While it is expected that these members may find additional value in the Guaranteed Minimum Pension underpins to these benefits, the Trustee will be undertaking an investment strategy review to consider the funds offered to members.

Charges and transaction costs continued

03.03 What are the assumptions based on?

In preparing these illustrations, the Trustee has considered statutory guidance including the following:

- The Department for Work and Pensions' Reporting of costs, charges, and other information: Guidance for trustees and managers of relevant occupational schemes'
- The Financial Conduct Authority (FCA) Transaction cost disclosure in workplace pensions Policy Statement PS17/20; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix

04 Core financial transactions

04.01 Assessing Core Transactions

During the year, the Trustee is required to ensure the requirements of Regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 are met and that the Plan's core financial transactions are processed promptly and accurately.

Royal London

Royal London provides administration and investment platform services to the DC section of the Plan.

Royal London provided an account statement showing the individual member holdings over the period, how these holdings have changed in value, and the financial transactions that occurred during the period. The report shows that there was one core financial transaction that occurred during the period covered by this statement. The Trustee monitors Royal London on the basis of this statement.

Royal London do not prepare a Scheme specific service level report. However, Royal London do make governance reports available to trustees which are not scheme specific but cover the aggregate service level that has been achieved in respect of core financial transactions across all of their participating employers. This is comparable to many legacy pension providers for plans of this size.

The Trustee generally believes that the processes in place by the administrator are appropriate and adequate. The Trustee will however discuss reporting with Royal London in an effort to obtain more Plan specific data.

For the purposes of this statement, Royal London have confirmed that they generally carry out the following core financial transactions (for closed schemes) across the plans they administer:

- **Monitoring of bank accounts** – Royal London have teams that focus on monitoring the investments and banking transactions.
- **Payments to members** – Royal London's administration team will ensure that all payments out of the Plan in respect of members' benefits are made in line with standard checks. This includes agreed processes and authorisation levels to ensure any payment made is calculated correctly and in line with the Plan rules and legislation and complies with HMRC rules and guidance.

The Trustee understands that this is typical of legacy type arrangements such as this, and therefore this lack of reporting and transparency is reflected in the Trustee's 'Value for Members' assessment.

Based on the above, the Trustee confirms that it is comfortable with the accuracy and timeliness of the core transactions processed in the year.

05 Value for Members

05.01 Assessment of Value

The Value for Members assessment (VfM) is based on the matters which must be covered, as set out in the relevant regulations and guidance. The Plan had assets of less than £100m at the date of its last set of audited accounts and therefore must comply with the regulations as set out in that guidance, which state that for plan years ending on or after 1 January 2022, plans with less than £100m in assets and having been in operation for at least three years, must undertake a VfM assessment each year, based on a set range of matters (including: costs and charges, core financial transactions, record keeping, communications, managing conflicts, investment strategy and trustee knowledge and understanding). This must determine whether the DC benefits provided to members are good value, or not.

The Trustee has taken professional advice on whether this is the case and having considered the advice provided by its advisers, has concluded that the Scheme does not generally offer good value for members, although some members who have a GMP underpin to their money purchase benefits may find additional value in this benefit. In summary, the Trustee concluded that:

- The net returns achieved by the Scheme does not provide good value to the members of the Scheme in comparison to the three large comparator plans used for the assessment. The performance of the Crest Secure Plan over the last one year and five years was behind all three of the comparators.
- The Trustee believes that the charges associated with the Scheme represents poor value to members as the overall charge of 1.45% (after allowing for the current return enhancement of 0.80%) is noticeably higher than the charges for the three large comparative plans. However, current charges are fairly typical for a legacy style arrangement like the Scheme which also includes a defined benefit underpin. The annual management charge covers the administrative costs of Royal London and their investment management charges.
- The Trustee is considering undertaking a review of the current investment fund range during the next Scheme year to to consider alternative investment options and whether value for members can be improved in respect of net returns and the level of costs and charges.
- Although Scheme level reporting could be improved, this is not expected to be pragmatic as bespoke reporting would be required (which is likely to be cost prohibitive). The Trustee will approach Royal London to see whether additional reporting information can be made available on a scheme specific basis (particularly in respect of service levels).
- The Trustee relies on the standard communications issued out by the Scheme's administrators. These communications satisfy the regulatory requirements for the arrangement. The Trustee does not send out any further communications, however this is a pragmatic approach given the size and structure of the Scheme.

Following this assessment, the Trustee does not believe that the Scheme represents good value for the members.

The Trustee will be considering options to improve member value, which could include a wind-up of the Scheme. However, statutory work would first need to be completed by the Trustee in relation to the GMP benefit underpins that some members have, specifically to review GMP benefits and potentially adjust scheme benefits to remove possible inequalities that may have arisen from unequal GMPs. In the interim, the Trustee will be considering

undertaking an investment strategy review which will consider whether there are alternative funds that could improve member value.

06 Trustee Knowledge and understanding

06.01 Knowledge and understanding of the Trustee

The Trustees are required to have appropriate levels of knowledge and understanding. This includes a working knowledge of the Scheme's Trust Deed and Rules and documents setting out the Trustee's current policies. Further, it must have sufficient knowledge and understanding of the law relating to pensions and trusts; and the principles relating to the funding and investment of occupational schemes.

The Trustee Board is familiar with the Trust Deed and Rules, Trustee Report and Accounts and other key documentation, and has digital access to these documents. The Trustee is in the process of completing the Trustee Toolkit for DC/hybrid schemes and will be preparing a training log to document the training undertaken.

The Trustee works alongside the Scheme auditors to ensure that the Trustee Report and Accounts is submitted within regulatory deadlines and contains sufficient information. The Trustee Chair is a Financial Director of the Company and whilst no training has been undertaken during the period of review, he has a general knowledge of the finance sector as part of this role.

The Trustee receives updates from its advisors on pensions law developments and any other areas of particular importance, including appropriate training. However, no direct training relating to DC matters has been received during the reporting period.

Any new Trustees would be expected to carry out training and be fully conversant with the Scheme's documentation within 6 months.

The Trustee is satisfied that they have complied with the knowledge and understanding requirements set out in sections 248 of the Pensions Act 2004.

07 Conclusion

07.01 Conclusion

The annual production of this Statement provides members with a narrative of how the Trustee looks after members' interests, especially in the areas of the five key elements within this Statement listed below.

- Fund range
- Charges and transaction costs / net returns
- Core financial transactions
- Providing Value for Members
- Trustee Knowledge and Understanding

The Trustee will continue to monitor these key areas and report to members both via the annual Chair's Statement and other communications as appropriate.

In conclusion, I submit this report in accordance with the Chair's Statement requirements.

Signature

Date

Name

Ian Whitehouse

Qualification

Chair of the Trustee