

## **Appendix A – Annual governance statement by the Chair of Trustees for the year ending 31 January 2021**

### **Introduction**

Governance standards apply to defined contribution pension arrangements like our pension scheme. These are designed to help members achieve a good outcome from their pension savings.

As Chair of the Trustees of the Cadogan Estates Limited 1995 Pension Scheme ('the Scheme'), I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards within the Scheme. The information included in my statement is set out in law and regulation.

This Statement covers the period from 1 February 2020 to 31 January 2021.

The Trustees are committed to having high governance standards and we hold a dedicated annual meeting to monitor the controls and processes in place in connection with the Scheme's investments and administration.

The worldwide spread of Covid-19 occurred during the Scheme year. The Trustees would like to reassure members that 100% of the Buck administration team have been equipped for home-working and able to access in-office phone and computer systems since Monday, 23 March 2020.

Assisted by our advisors and through hosting virtual meetings, we have been monitoring the impact of the Covid-19 pandemic on the Scheme, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be.

## **Default investment strategies**

A default investment arrangement is set up by the Trustees and provided for members who do not choose an investment option for their contributions. Members can also choose to invest in this default investment arrangement.

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangements. We take professional advice from regulated investment advisers.

### **Setting an appropriate investment strategy**

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the statement of investment principles. A copy of the latest statement of investment principles, dated September 2020, is attached to this statement. The Trustees' evidence that the Scheme continues to follow and act on the principles outlined in the SIP is contained within a document called an Implementation Statement.

We continue to use the Lifestyle Option for Income Drawdown as the default strategy.

The Lifestyle Option for Income Drawdown is structured to provide the potential for a level of growth over and above inflation in the long term. As members approach retirement, the Lifestyle Option for Income Drawdown retains some exposure to growth investments, recognising the longer-term investment horizon, even at retirement.

The Lifestyle Option for Income Drawdown strategy allows for members to make use of new pension flexibilities, leaving their benefits invested and drawing down income as it is required in a series of cash withdrawals.

The Lifestyle Option for Income Drawdown initially invests in the Threadneedle Global Equity Select Fund. At five years before retirement, the Threadneedle Global Equity Select Fund allocation is phased out into Threadneedle Dynamic Real Return Fund, Aquila Life over 15 years UK Gilts Index Fund and Threadneedle Cash Fund (Sterling Fund).

At a member's selected retirement age, the allocation will be 40% in the Dynamic Real Return Fund, 35% in the Aquila Life over 15 years UK Gilts Index Fund and 25% Threadneedle Cash Fund (Sterling Fund), which allows members to take their tax-free cash allowance at retirement.

The Lifestyle Option for Income Drawdown is currently broadly meeting its objectives to reduce volatility as members approach retirement, whilst still achieving investment growth.

Lifestyle strategies targeting a cash lump sum and annuity purchase at retirement are also offered to members. These lifestyles share a common growth phase with the Lifestyle Option for Income Drawdown strategy, only deviating to their respective retirement targets from five years to retirement.

Given the wide range of salaries of members within the Scheme, the Trustees believe that the Lifestyle Option for Income Drawdown provides the greatest flexibility as a default option.

## **Reviewing the default investment arrangement**

The Trustees are expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years, and take into account the needs of the Scheme membership when designing it.

The Trustees review the investment objectives and the performance of the default investment arrangement on an annual basis, taking advice from the Trustees' investment consultant and the Investment manager.

The Trustees last formally reviewed the default investment arrangement on 26 June 2019, considering at a high level the membership profile of the Scheme as part of the review, along with the risk profile and number of investment funds offered to members, before concluding that the current default Lifestyle strategy was still appropriate, given the low proportion of Scheme retirees who are purchasing annuities at retirement.

The next formal review of the default investment arrangement is required before June 2022. The Trustees elected to accelerate the next formal review of the default investment arrangement and commenced (but did not complete) a review over the Scheme year, receiving advice in January 2021 that recommended that the Trustees consider each of the following:

- introducing a sustainable investment fund that invests in companies that make a positive contribution to society and the communities they operate in;
- adopting a longer de-risking period to reduce the risk of a period of poor returns negatively impacting the size of members retirement pots; and/or
- replacing the Threadneedle Dynamic Real Return Fund with a fund that the Trustees' investment consultant believes is more likely to provide reliable returns.

The Trustees are continuing to review each of the individual elements of this recommendation and aim to agree and implement any default investment arrangement changes prior to June 2022.

## **Self-select investment choices**

In addition to the default lifestyle fund, the Trustees allow members to self-select from a range of Threadneedle funds. At the start of the Scheme year, the self-select funds were:

- Global Equity Select Fund
- Dynamic Real Return Fund
- Cash Fund (Sterling Fund)
- Corporate Bond Fund
- Balanced Pathway Fund
- Property Fund
- UK Equity High Alpha Fund

as well as two Aquila Life funds

- Aquila Life UK Equity Index Fund
- Aquila Life Over 15 Years UK Gilts Index Fund

### **Self-select investment choices (continued)**

Following a review of its TPEN funds and guest funds, Threadneedle closed both the Balanced Pathway Fund and the Aquila Life UK Equity Index Fund from 27 January 2021, due to a decline in their popularity making them too small for Threadneedle to manage sustainably. The Trustees chose the 'Threadneedle Multi Asset 2' fund as the replacement for the Balanced Pathway Fund and the UK Equity High Alpha Fund as the replacement for the Aquila Life UK Equity Index Fund. Members who were affected by the changes received communications informing them of the Trustee's selected replacements but offering them the option to switch to another fund.

Members are expected to take independent financial advice before choosing between funds. Any members considering switching funds during the Covid-19 pandemic should consider the risk involved and take any advice they feel is necessary. Free impartial guidance is available from the Pensions Advisory Service – their website can be found at <https://www.pensionsadvisoryservice.org.uk/>

### **Charges and transaction costs paid by members**

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) in the Scheme that are paid by members rather than the employer. Apart from bank charges and the total fund management charges paid by members, the employer pays all the other costs of running the Scheme (i.e. administration costs).

The investment management and transaction costs can be explained like so:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges). The ongoing charges figure for the default investment strategy is compared against the 0.75% charge cap set by legislation.
- Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments within each fund or strategy. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges figures, transaction costs are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is typically net of these transaction costs. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.
- In addition, there can be switching costs occurred as a result of the buying and selling of funds. This may relate either to member-driven trades (e.g. a self-select member switching between investment funds) or to automatic trades (e.g. those associated with fund switches resulting from progression along a lifestyle glidepath). These costs relate to the difference between the fund price used to place the trade and the price which would have applied to that fund on that day had the trade not been placed. These are implicit costs which are not typically visible to members.
- Finally, the Trustees would also like to note the presence of a "Property Expense Ratio" covering indirect property expenses for the Property Fund. These are expenses incurred indirectly when part of the portfolio is invested in one or more pooled funds with direct property exposure. These are also implicit costs which are not typically visible to members and are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is also typically net of these costs. The Trustees received these details for this Scheme year as a result of Threadneedle providing standardised cost / charges information using the EMT template rather than the DCPT template previously provided, which did not feature information on these expenses.

## Charges and transaction costs paid by members (Continued)

The level of charges and transaction costs applicable to the funds during the Scheme year were confirmed by Columbia Threadneedle as being:

Investment manager Fund	Ongoing charges figure	Transaction costs	Indirect property expenses
<b>Threadneedle</b>			
Global Select Fund	0.45%	0.30%	-
Dynamic Real Return Fund	0.50%	0.19%	-
Cash Fund (Sterling Fund)	0.12%	0.02%	-
Corporate Bond Fund	0.35%	0.09%	-
Balanced Pathway Fund *	0.40%	0.05%	-
Multi Asset Fund *	0.35%	0.31%	
Property Fund	0.80%	0.08%	1.28%
UK Equity High Alpha Fund *	0.60%	0.17%	-
<b>BlackRock</b>			
Aquila Life UK Equity Index *	0.18%	0.01%	-
Aquila Life Over 15 Years UK Gilts Index Fund	0.15%	0.00%	-

\* The Multi Asset Fund replaced the Balanced Pathway Fund after it closed on 27 January 2021, while the UK Equity High Alpha Fund replaced the Aquila Life UK Equity Index Fund after it closed on 27 January 2021.

## Completeness of transaction cost information

Where information about the member costs and charges is not available, we have to make this clear to you, together with an explanation of what steps we are taking to obtain the missing information.

Threadneedle have confirmed the following:

- Transaction cost information was previously provided in a DCPT format, which is typically only available for calendar years (from 1 January to 31 December), rather than Scheme years (from 1 February to 31 January). However, this year Threadneedle provided data in an EMT format, which included transaction cost relating to the Scheme year, but only for the Threadneedle funds. As a result, the Threadneedle funds above feature transaction costs for the Scheme year from 1 February 2020 to 31 January 2021, while the BlackRock funds above feature transaction costs for the period 1 January 2020 to 31 December 2020;
- Transaction cost data was not available for 0.51% of the Dynamic Real Return Fund; and
- Finally, the Trustees were not provided with transaction costs prior to 1 January 2018.

The Trustees are pleased that the availability of charges information has improved this year, with a higher proportion of the transaction cost data available this year versus the previous year, the receipt of transaction cost data relating to the Scheme year for the Threadneedle funds and the additional information Threadneedle have provided this year in relation to the indirect property expenses. However, we also note that transaction cost data relating to the Scheme year is still unavailable for the BlackRock funds.

We will continue to review our processes for monitoring transaction costs provided by Threadneedle and will continue discussions with the managers on their ability to provide complete and historic information for these funds in future.

## Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on members' savings. We have prepared the following examples, having taken account of the statutory guidance issued by the Department of Work and Pensions<sup>1</sup> in preparing this section of our statement.

Each table in this section shows the projected pension savings (or 'retirement pot') in today's money for a different representative member, using median statistics as at 31 January 2021 and using the Statutory Money Purchase Illustration ('SMPI') assumptions as at 1 February 2021 that will feature in the Scheme's 2021 annual benefit statements (with the exception of the average of the annual transaction costs over the period 1 January 2018 to 31 December 2020 being taken into account in the enclosed tables, when these are ignored within SMPI statements).

'Typical' active Scheme member:

	Lifestyle option for income drawdown The default drawdown lifestyle option with a five year lifestyling period.		Dynamic Real Return Fund		Sterling Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
44	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
46	68,378	67,506	66,063	65,359	62,067	61,931	67,423	64,821	68,978	68,055	68,378	67,506
48	82,469	80,498	77,288	75,747	68,767	68,485	80,311	74,583	83,842	81,735	82,469	80,498
50	97,313	93,993	88,678	86,167	75,118	74,684	93,680	84,287	99,648	96,073	97,313	93,993
52	112,949	108,013	100,235	96,617	81,140	80,546	107,551	93,931	116,457	111,098	112,949	108,013
57	155,788	145,488	129,876	122,875	94,859	93,847	144,539	117,788	163,292	151,890	155,788	145,488
62	203,640	185,904	160,618	149,327	106,863	105,417	185,086	141,287	217,909	197,753	204,576	186,705
65	221,631	200,866	179,608	165,291	113,334	111,623	211,262	155,216	254,944	227,963	237,041	213,386

'Typical' youngest active Scheme member:

	Lifestyle option for income drawdown The default drawdown lifestyle option with a five year lifestyling period.		Dynamic Real Return Fund		Sterling Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
25	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
27	5,376	5,330	5,254	5,217	5,041	5,034	5,326	5,188	5,408	5,359	5,376	5,330
29	9,670	9,517	9,266	9,145	8,588	8,566	9,502	9,053	9,776	9,613	9,670	9,517
31	14,193	13,866	13,337	13,085	11,951	11,905	13,835	12,895	14,421	14,071	14,193	13,866
33	18,957	18,384	17,468	17,036	15,139	15,064	18,330	16,713	19,361	18,743	18,957	18,384
38	32,010	30,461	28,063	26,965	22,402	22,231	30,317	26,158	33,124	31,427	32,010	30,461
43	46,876	43,744	39,051	36,967	28,757	28,465	43,457	35,461	49,174	45,687	46,876	43,744
48	63,805	58,353	50,446	47,042	34,318	33,887	57,861	44,624	67,891	61,720	63,805	58,353
53	83,084	74,422	62,265	57,191	39,185	38,603	73,650	53,650	89,718	79,746	83,084	74,422
58	105,040	92,095	74,523	67,415	43,443	42,705	90,957	62,540	115,172	100,012	105,040	92,095
63	127,799	109,770	87,236	77,714	47,170	46,273	109,930	71,296	144,855	122,797	130,045	111,533
65	131,720	112,728	92,452	81,854	48,526	47,566	118,020	74,761	158,066	132,685	140,993	119,841

<sup>1</sup> <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

## Examples of the impact of costs and charges (continued)

'Typical' deferred Scheme member:

Lifestyle option for income drawdown The default drawdown lifestyle option with a five year lifestyling period.			Dynamic Real Return Fund		Sterling Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
44	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000
46	22,121	21,815	21,308	21,062	19,908	19,860	21,786	20,873	22,332	22,008	22,121	21,815
48	23,302	22,662	21,621	21,123	18,873	18,783	22,601	20,747	23,748	23,063	23,302	22,662
50	24,545	23,541	21,939	21,185	17,892	17,763	23,447	20,622	25,254	24,170	24,545	23,541
52	25,856	24,455	22,261	21,247	16,962	16,799	24,324	20,497	26,855	25,329	25,856	24,455
57	29,445	26,897	23,088	21,403	14,842	14,612	26,663	20,189	31,317	28,478	29,445	26,897
62	33,378	29,454	23,945	21,560	12,988	12,710	29,228	19,886	36,521	32,017	33,533	29,583
65	33,820	29,417	24,474	21,655	11,988	11,689	30,884	19,706	40,049	34,349	36,253	31,321

'Typical' youngest deferred Scheme member:

Lifestyle option for income drawdown The default drawdown lifestyle option with a five year lifestyling period.			Dynamic Real Return Fund		Sterling Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund	
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
25	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600
27	2,739	2,701	2,638	2,608	2,465	2,459	2,697	2,584	2,765	2,725	2,739	2,701
29	2,885	2,806	2,677	2,615	2,337	2,325	2,798	2,569	2,940	2,855	2,885	2,806
31	3,039	2,915	2,716	2,623	2,215	2,199	2,903	2,553	3,127	2,992	3,039	2,915
33	3,201	3,028	2,756	2,631	2,100	2,080	3,012	2,538	3,325	3,136	3,201	3,028
38	3,646	3,330	2,858	2,650	1,838	1,809	3,301	2,500	3,877	3,526	3,646	3,330
43	4,152	3,663	2,965	2,669	1,608	1,574	3,619	2,462	4,522	3,964	4,152	3,663
48	4,728	4,028	3,075	2,689	1,407	1,369	3,967	2,425	5,273	4,457	4,728	4,028
53	5,385	4,431	3,189	2,709	1,231	1,191	4,348	2,389	6,149	5,011	5,385	4,431
58	6,132	4,873	3,307	2,729	1,077	1,036	4,767	2,353	7,171	5,633	6,132	4,873
63	6,861	5,274	3,430	2,749	943	901	5,225	2,317	8,362	6,334	6,983	5,360
65	6,862	5,229	3,480	2,757	894	852	5,420	2,303	8,892	6,638	7,356	5,568

## Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. Values shown are estimated and are not guaranteed, the actual fund values could be higher or lower.
2. Inflation is assumed to be 2.5% each year.
3. For active members only, future contributions are assumed to be paid from assumed age to 65 and increase in line with assumed earnings inflation of 2.5% each year.
4. Total contribution rates and pensionable salaries for the active member illustrations in the Scheme are assumed to be 12% and £43,000 respectively for the 'typical' active member and 9% and £22,000 respectively for the 'typical youngest' active member.
5. The starting pot sizes are assumed to be £55,000 for the 'typical' active member, £21,000 for the 'typical' deferred member, £1,300 for the 'typical youngest' active member and £2,600 for the 'typical youngest' deferred member.
6. Starting ages within the Scheme are assumed to be 44 for the 'typical' active member, 44 for the 'typical' deferred member, 25 for the 'typical youngest' active member and 25 for the 'typical youngest' deferred member.
7. The projected growth rate for each fund (before total expense ratio and transaction costs over the year to 31 January 2021 are deducted) are as follows:

<b>Fund</b>	<b>Projected growth rate</b>	<b>Projected total ongoing charges</b>	<b>Projected transaction costs</b>
Default lifestyle (growth phase)	2.63% above inflation	0.45% per annum	0.28% per annum
Dynamic Real Return Fund	0.73% above inflation	0.50% per annum	0.10% per annum
Cash Fund (Sterling Fund)	2.63% below inflation	0.12% per annum	0.00% per annum
Property Fund	1.85% above inflation	2.08% per annum	0.13% per annum
UK Equity High Alpha Fund	3.12% below inflation	0.60% per annum	0.17% per annum
Global Select Fund	2.63% below inflation	0.45% per annum	0.28% per annum

8. The projected transaction costs are the average of the annual transaction costs over the period 1 January 2018 to 31 December 2020. Negative average transaction costs have been treated as zero, in line with how the FCA treats transaction costs for contract-based pension schemes.



## **Core financial transactions**

The Trustees are required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring assets relating to members into and out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to, or on behalf of, members.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrator, Buck. This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

There is a service level agreement in place between the Trustees and Buck which provides for Buck to ensure accurate and timely processing of the core financial transactions for which it is responsible. Buck is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Scheme's trust deed and rules.

In order to monitor this service, the Trustees receive regular reports confirming the payment and allocation of contributions, as well as information on events such as cash management and pension payroll. The Trustees also monitor transactions made via the Trustees bank account on a regular basis.

As administrator, Buck prepares a regular report (AAF 01/06) setting out its internal controls in respect of pensions administration which is independently audited. The Scheme Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

Although Buck has targets in place within the Service Level Agreements around such items as the monitoring of bank accounts, investment switches and investment / banking transactions, the Trustees identified last year that improvements could be made to the statistics provided on the actual targets and timescales, as well as the level of service that is provided in comparison to these targets and timescales.

Buck has taken on board our request, developed these improvements and has been recording 'core financial transaction' performance from the third quarter of 2020, with reporting in administration reports due to be introduced from Summer 2021 onwards. Early indications are that around 82% of 'core financial transactions' were completed within target over the second half of 2020.

In the meantime, as administrator, Buck provide the Trustees with a regular administration report that sets out the general Service Level Agreements for the efficient processing of scheme events and the Trustees discuss these reports at Trustee meetings, noting any specific issues that have arisen with the administration services provided (covering core financial transactions and member processing).

The Trustees have noted and discussed issues relating to the following over the year to 31 January 2021:

1. the payment of incorrect contribution rates for the period April 2019 to April 2020 by Snaigow Rural Activities Limited, one of the Participating Employers in the Scheme; and
2. the late investment of monthly contributions by Buck, which were invested between 1 and 9 days after the SLA of 5 days from receipt over the Scheme year to 31 January 2021.

In general, any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

### **Core financial transactions (continued)**

In the case of the incorrect contribution rate payments, the Trustees previously believed that changes to the payment schedule and employer payroll processes made since the previous Scheme year end should have helped resolve these. In the event, the correct contribution rates have been paid since May 2021 for Snaigow Rural Activities Limited and the Trustees believe that these issues should not recur in future.

In the case of the late investment of monthly contributions, Buck is continuing to investigate this matter, with a view to improving the quality of data received from the Participating Employers and improving Buck's internal processes and reporting. The Trustees noted that the lateness had dropped from the previous Scheme year, when monthly contributions were invested between 1 and 21 days after the SLA of 5 days from receipt.

Other than these issues, there were no other material administration service issues discussed in the Scheme year which need to be reported here by the Trustees.

In advance of improving the processes as mentioned above, and in advance of the specific reporting being introduced by Buck over 2021, I remain confident that all core financial transactions have been processed within a reasonable time.

Overall, the Trustees are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

## **Trustee knowledge and understanding**

The law requires the Trustees to be conversant with the Scheme's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Scheme effectively.

The Trustees meet all the knowledge and understanding requirements and understand the Scheme and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustees' current policies.

The Trustees are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes.

The Trustees do this by regularly reviewing the relevant Scheme documents and seeking advice from the Scheme's legal advisers. During the Scheme year, the Trustees have sought advice on matters such as the draft data protection policy.

The Trustees have assessed the Scheme against the standards set out in the new code of practice for trustees of pension schemes providing money purchase benefits (the DC code) and related guides and have established an action plan to ensure we can demonstrate that we are offering a quality scheme.

The Trustees take their training and development responsibilities seriously and the Trustees keep a record of the training completed by each Trustee. The training log is reviewed at each Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. All Trustees have completed the essential modules within the Pensions Regulator's on-line trustee toolkit. New Trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board. Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.

The Trustees also receive "on-the-job" training. This means that as new topics arise, their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests as well as training during the meeting, so that the Trustees may engage on such topics in an informed manner. Relevant advisers attend Trustee meetings and are in frequent contact with the Trustees to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

During the Scheme year, training and development on the following topics took place:

- Investment consultant objectives
- Future changes to the Statement of Investment Principles and investment disclosures
- A review of the default lifestyle arrangement and self-select investment funds, including discussion of responsible investing and Environmental, Social and Governance considerations
- The introduction of an Implementation Statement

As a result of the training activities which have been completed by the Trustees, individually and collectively, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees to the Scheme.

## **Assessing value for members and wider value for money**

As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which costs and charges within the Scheme represent good value for members when this is compared to other options available in the market.

This section sets out the approach that the Trustees have taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

### **Categorising costs/charges and how these impact on our assessment**

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest charges, and the overall quality of the service received has been taken into account in the assessment of value to members.

In line with our legal duties and guidance issued by the Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Principal Employer.

It is the current policy of the Trustees and the Principal Employer that the only costs that are paid by members are fund management charges and transaction costs for the investment funds used within the Scheme (as well as bank charges that are also paid from the Scheme and not explicitly financed by the Principal Employer).

For all other costs and charges, the Principal Employer bears the full cost. This covers such areas as:

- wider investment support and governance (e.g. the costs of regularly reviewing and updating funds available to members, etc);
- administration of the Scheme (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, producing annual financial statements, etc);
- member communications (e.g. the costs of producing and issuing member booklets, annual benefit statements, etc); and
- the management and governance of the Scheme (e.g. the expenses of the Trustees, the costs of legal/actuarial advisers and annual audit, etc).

As a result, the Trustees have undertaken two analyses:

1. First, we have assessed the 'value for members' arising from the benefits that members receive from the charges and transaction costs that they directly pay – this assessment is required by legislation but, for the Scheme, is mainly limited to the performance and volatility of investment returns from Scheme funds versus the charges that members pay for holding those funds and from the bank charges;
2. We have also assessed the overall 'value for money' offered to members of the Scheme, with the aim of capturing not only the value from member-borne costs but also the broader elements of value that members receive from the employer-financed costs, as well as wider factors such as the generosity of the employer contribution rates above the automatic enrolment minimum contribution levels.

## **Overall conclusions**

Based on our assessment, we have concluded that the Scheme offered good 'value for members' over the year to 31 January 2021, when measured against the definition required by legislation. This is an improvement from the previous Scheme year. It should be noted, though, that as a result of the 'value for member' assessment being heavily determined by investment performance and volatility, the 'value for member' assessment is more likely to vary from year to year than the 'value for money' assessment.

When we take into account wider elements of value that members receive as a result of costs paid by the Principal Employer, we have concluded that the Scheme offered good 'value for money' overall over the Scheme year. This conclusion is unchanged from the previous Scheme year.

(Our definitions of 'satisfactory' and 'good' value are set out below.)

There are areas where overall 'value for money' could be improved for members and the Trustees have already taken action to improve some areas and plans to perform further investigations into other areas over the year to 31 January 2022.

## **Our approach**

Assisted by our advisers and in line with the Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay (including transaction costs where available) and the costs that the Principal Employer pays;
2. We have assessed the scope and quality of the services that members receive, in line with criteria agreed by the Trustees in advance;
3. We have compared the value that members receive from the services against the cost of those services, on both the 'value for member' basis required by legislation and the wider 'value for money' basis; and
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that not only are we comparing the level of charges in each fund with the levels of return they have delivered to members, we are also comparing the overall *costs* of membership of the Scheme against the *benefits* of membership (i.e. the services provided by the Scheme).

In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of its advisers.

## **Preparation for the assessment**

The Trustees received support from advisers around how to undertake a value for member assessment and also considered the statutory guidance. A number of key decisions were made as part of these preparations.

In line with previous years' exercises:

- The Trustees will use a scoring system for each assessment;
- Individual areas of service were given scores by considering the scope and quality of the services under those areas;
- Two overall weighted scores ranging from 0% to 100% were produced, one for 'value for member' and one for 'value for money';
- The Trustees agreed that any score under 50% represented poor value, between 50% to 75% represented satisfactory value and scores of 75% or over represented good value; and
- Scores will be compared from year to year from now on, with a view to measuring and monitoring changes to the 'value for members' and wider 'value for money'.

## **Process followed for the assessment, including key factors considered**

The Trustees, assisted by their advisers, then considered the services provided by the Scheme in the main areas where costs are borne (whether by members or by the employer), such as investment, communications, scheme management and governance, and administration.

For each of the 'value for member' and wider 'value for money assessment', different scores and weighting factors were applied to reflect the different services being assessed.

For the 'value for member' analysis, only the historic return and volatility of the default fund versus benchmark, and the charges and transaction costs of that fund versus benchmark have been assessed. 67% of the 'value for member' score has been allocated to the historic return and volatility of the default fund versus benchmark and 33% of the score allocated to the charges and transaction costs of that fund versus benchmark.

For the wider 'value for money' analysis, the assessment covers a larger set of services paid for by both members and the Principal Employer, including the following

<b>Area</b>	<b>Examples</b>
<b>Investments / charges</b>	The quality / governance of the default fund and alternative choices, the historic return and volatility of the default fund, charges and transaction costs versus benchmark, etc
<b>Communications / member support</b>	Whether bespoke/tailored or event-driven communications are used, at-retirement communications/guides/modellers/support, access to pension freedoms, etc
<b>Scheme management and governance</b>	Understanding of membership characteristics/attitudes/needs, compliance with the Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
<b>Administration / online services</b>	Online fund values/switching, use of service level agreements, core administration team/helpline, etc
<b>Employer contribution to member funds</b>	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Scheme is well run, the Trustees continue to believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Scheme and the level of investment performance net of fees.

As a result, 30% of the overall 'value for money' score is allocated to the generosity of the employer contributions, 30% was allocated to the quality and governance of the investment options and 20% to the competitiveness of fees and transaction costs.

### **Process followed for the assessment, including key factors considered (continued)**

The remaining 20% was allocated to the other categories, which cover whether the communications support good savings behaviours, whether the governance and oversight identifies and prioritises member interests and whether efficient processes are in place to carry out member instructions or transactions to a suitable quality and timescale.

### **Explanation of the results of the assessment**

Our conclusion that the Scheme offers good value for members over the year to 31 January 2021 is based on aspects such as:

- The default investment strategy has outperformed the benchmark selected for this exercise over the 1 year and 5 years to 31 January 2021, with a lower level of volatility than the benchmark selected for this exercise;
- The default investment strategy also has an annual charge of 0.45% throughout its growth phase, compared to the 0.4% average charge for default funds within trust-based DC schemes that featured in the 2017 PLSA annual survey;
- The transaction costs applying during the growth phase of the default fund are high, at 0.30%; and
- Finally, the bank charges that are met from the Scheme, although small, do not appear to present good value to members.

As mentioned, the 'value for member' assessment is more likely to vary from year to year than the 'value for money' assessment due to being heavily influenced by investment performance and volatility.

Our conclusion that the Scheme offers good value for money over the year to 31 January 2021, taking into account employer-borne costs, is based on aspects such as:

- The contribution structure is generous compared to the automatic enrolment minimum, with most members not required to pay employee contributions and receiving employer contributions that meet the total contribution rates required for automatic enrolment qualifying scheme status and which are above what is typical for occupational DC schemes;
- The default investment strategy has its performance reviewed on a six-monthly basis;
- Members are able to receive a wide range of support from the administrators (e.g. a dedicated helpline manned by a ring-fenced administration team), with only a few member complaints reported direct to the Trustees over the year to 31 January 2021. The Trustees are also supported by a dedicated account manager, which compares well to other options in the market for a scheme this size;
- Members receive communications that aid member decision-making (including section-specific contribution structure booklets, a bespoke annual benefit statement, etc);
- The Scheme has a set of Trustees who meet between two to four times a year, discussing DC-specific matters at each Trustee meeting, with a Trustee training plan in place and ad-hoc training received before major decisions;
- The Trustees also have clear contracts with external advisers, whose fees are reviewed regularly and benchmarked against the market.
- Finally, over the year to 31 January 2021, the Trustees
  - monitored the impact of the Covid-19 pandemic on the Scheme, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations;

### **Explanation of the results of the assessment (continued)**

- completed all of the essential modules of the Trustee Toolkit;
- continued investigations into the late investment of contributions by Buck beyond the SLA of 5 days from receipt;
- liaised with the fund managers and received improved information relating to transaction costs;
- continued discussions with Buck around a review of the at-retirement tools/guidance/advice provided to members, as well as the options available within or outside the Scheme; and
- commenced a review of the default investment arrangement and the self-select funds.

### **Follow-on actions and investigations**

Over the year to 31 January 2022, the Trustees plan to continue:

- monitoring the impact of the Covid-19 pandemic on the Scheme, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations;
- liaising with the fund managers to ensure that complete and accurate disclosure of transaction costs is provided, in line with FCA rules. The Trustees will also continue to review the default fund transaction costs versus similar funds in the market, but noting the continuing outperformance against benchmark;
- reviewing the at-retirement tools/guidance/advice provided to members, including those available as additional modules within the Member Portal, as well as the options available within or outside the Scheme;
- considering whether to conduct investigations to improve the Trustees' understanding of the characteristics / attitudes of members and how these feed into Trustee decision-making;
- reviewing the default investment arrangement and self-select fund range;
- liaising with Buck to receive further regular reporting on service levels related to the processing of financial transactions and to ensure that improvements are made to the timeliness of the investment of contributions.

### **Feedback**

If you have any questions about anything that is set out in this Statement, or any suggestions about what can be improved, please do let us know.

The Trustees will also discuss this analysis with the Principal Employer to obtain their views and to again request that the bank charges are met by the Principal Employer in future, if possible.

**Signed for and on behalf of the Trustees of the Cadogan Estates Limited 1995 Pension Scheme by Sanjay Patel, Chair of the Trustees.**

**Approved by the Trustee on 19 July 2021**



## Appendix B – Statement of Investment Principles

### The Cadogan Estates Limited 1995 Pension and Assurance Scheme Statement of Investment Principles

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# 1 Introduction

## Scheme background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for The Cadogan Estates Limited 1995 Pension and Assurance Scheme (the "Scheme").
- The Scheme:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined contribution (DC) basis,
  - is open to new members.
- Buck is the investment consultant to the Trustees.
- Contributions are directed to an occupational money purchase pension policy with Columbia Threadneedle Investments (the "platform provider").

## Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement.
- The Trustees have taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance. Information on the Trustees' approach to investment matters within the Scheme, and in particular in setting the default arrangement, are included within this document.

## 2 Statement of Investment Principles

### Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The platform provider will prepare detailed quarterly reports on the Scheme's investments and the Trustees will meet with them periodically.
- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

### Key investment principles

#### Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes, these attributes being:
  - security (or quality) of the investment,
  - yield (expected long-term return),
  - spread (or volatility) of returns,
  - term (or duration) of the investment,
  - exchange rate risk,
  - marketability/liquidity (i.e., the tradability on regulated markets),
  - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

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### Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustees believe that collective responsibility is the appropriate structure, given the size of the board. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.
- Investment decisions relating to the Scheme are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.
- Day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. An insurance contract has been exchanged with the platform provider and is reviewed from time-to-time. In addition, the underlying managers accessed via the platform provider are reviewed regularly to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Scheme, and appropriately diversified.

### Investment Objectives and Suitability of Investments

- The Trustees believe that fund selection is an important decision for all members since it is likely to have an important influence on the risk taken and return achieved on members' pension savings. The Trustees regularly communicate with members to enable them to understand the importance of this area and to provide them with education to help them to make informed choices about their selection of funds.
- However, the Trustees also recognise that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustees therefore recognise the importance of designing an appropriate default option for the Scheme's membership.
- Whilst the Trustees believe the chosen default option is a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether the default option or an alternative strategy would best meet their needs.
- The default option has been designed having taken due regard to the membership profile of the Scheme, including consideration of:
  - the size of members' retirement savings within the Scheme,
  - members' current level of income and hence their likely expectations for income levels post retirement,
  - the fact that members may have other retirement savings invested outside of the Scheme, and
  - the ways members may choose to use their savings to fund their retirement.
- These factors have also been considered when setting the range of alternative investment options from which members can choose.
- The objective of the default option is to provide a balanced investment strategy for members who do not make an active investment choice. The strategy aims to maximise the level of return (net of fees) that a member could expect to receive from the Scheme over the course of their working lifetime, while reducing the risk of them having income provision in retirement significantly below what may reasonably be expected.

- The objective of the alternative investment options available is to allow members to tailor their investments based on their individual investment requirements, while avoiding complexity. The range should assist members in achieving the following:
  - maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement,
  - protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs, and
  - tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.
- The Trustees recognise that members using the default option are likely to be less financially aware than those using self-select options and have taken this into account in the strategy design.
- The Trustees' investment consultant provides advice regarding the suitability of both the default option and the self-select options available.
- Details of the default and self-select options chosen (including the investment objectives of the individual funds), are shown in the appendices.
- Members are advised to take independent financial advice before choosing between these funds.
- The Trustees make available a property fund which members can choose to invest in. If dealing in this fund is suspended for any reason, the Trustees will temporarily divert member contributions from the property fund to a cash fund. The objective of the cash fund is to provide capital stability and this fund would not generally be expected to be used for long-term investment.
- The Trustees are satisfied that the funds offered to members are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

### Risk

- The Trustees have considered risk from a number of perspectives. These are the risk that:
  - the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
  - investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
  - investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit,
  - the default option is not suitable for members who invest in it, and
  - fees and transaction costs reduce the return achieved by members to an inappropriate extent.

- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.
- To mitigate some of these risks, the Trustees have made available a range of lifestyle options, which transition members' investments from higher risk orientated investments to lower risk bond, DGF and cash investments as members approach retirement.
- To help address these risks, the Trustees also review the default option used, the alternative lifestyle strategies available and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

### Expected Return on investments

- The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Scheme's membership and having taken into account the risk considerations set out above. The Trustees have also considered the return expectations of each of the alternative fund options and lifestyle strategies offered.

### Balance between different types of investments

- The investment managers will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Scheme (both within the default and self-select options).
- In addition, the design of the default option, and of the alternative lifestyle strategies, provides further diversification through the use of multiple funds throughout a member's working lifetime.

### Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment managers, are monitored by the Trustees with the assistance of the investment consultant.
- The platform provider will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to the portfolios. The investment managers will also report verbally on request to the Trustees.
- The investment managers or the platform provider will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.
- The Trustees will assess the quality of the performance and processes of the investment managers by means of a review at least once every three years in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

### Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.
- The Trustees will review the performance of the investment managers from time to time, based on the results of their performance and investment process.
- The platform provider is expected to provide written reports on a quarterly basis.
- The Trustees receive an independent investment performance monitoring report from their investment consultant on a six-monthly basis.

### Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment managers and platform provider to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate. This applies both to the default option and to the alternative fund options offered.

### Financially material considerations

- The Trustees expect their investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.
- The Trustees will regularly review the investment managers' policies in respect of financially material considerations to ensure that they are consistent with the above approach.

### Non-financial matters

- The Trustees' objective is that the financial interests of the Scheme members is their first priority when choosing investments. They have decided to engage with members and take members' preferences into account when considering secondary objectives for the Scheme.

### Stewardship in relation to the Scheme's assets

- The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long term success through monitoring, engagement and/or voting, either directly or through their investment managers.

### Engagement and monitoring

- The Trustees' policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

### Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers

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are expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing such investment managers.

### The Trustees' policy in relation to their investment manager

In detailing below the policies on the investment manager arrangements, the overriding approach of the Trustees is to select investment managers that meet the primary objectives of the Trustees. As part of the selection process and the ongoing review of the investment managers, the Trustees consider how well each investment manager, and the platform provider, meets the Trustees' policies and provides value for money over a suitable timeframe.

#### How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustees' policies

- The Trustees have delegated the day to day management of the Scheme's assets to investment managers, accessed through an investment platform. The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, agreed with the investment manager and the platform provider, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

#### How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term

- The Trustees, in conjunction with their investment consultant, choose their investment managers and the specific pooled funds to use in order to meet specific Scheme policies. They expect that their investment managers make decisions based on assessments about the financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

#### They have decided to engage with members and take members' preferences into account when considering secondary objectives for the Scheme. Members preferences will be incorporated into the pooled funds chosen. How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies

- The Trustees expect their investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints of the pooled funds chosen. The Trustees review the investment managers periodically. These reviews incorporate benchmarking of performance and fees. Reviews of performance focus on longer-term performance (to the extent that is relevant), e.g. looking at five years of performance.
- If the Trustees determine that the investment managers are no longer managing the assets in line with the Trustees' policies they will make their concerns known to the investment managers and may ultimately disinvest.

- The Trustees pay their platform provider a management fee which is a fixed percentage of assets under management. A portion of this is passed to the underlying investment managers.
- Prior to agreeing a fee structure, the Trustees, in conjunction with their investment consultant, consider the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the platform provider and the investment managers.

#### How the Trustees monitor portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range

- The Trustees, in conjunction with their investment consultant, have processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustees receive a report which includes the turnover costs incurred by the investment managers used by the Scheme.
- The Trustees expect turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.
- The Trustees do not explicitly monitor turnover, set target turnover or turnover ranges. The Trustees believe that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover. In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

#### The duration of arrangements with investment managers

- The Trustees do not in general enter into fixed long-term agreements with their platform provider or underlying investment managers and instead retain the ability to change investment managers should the performance and processes of the investment managers deviate from the Trustees' policies. However, the Trustees expect their manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

### 3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

#### Trustees

- The Trustees' primary responsibilities include:
  - preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers,
  - appointing investment consultants, a platform provider and investment managers as necessary for the good stewardship of the Scheme's assets,
  - reviewing the investment strategy on a regular basis, taking advice from the investment consultant,
  - assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance),
  - monitoring compliance of the investment arrangements with this Statement on a regular basis, and
  - monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Scheme's equity holdings.

#### Investment Consultant

- The main responsibilities of the investment consultant include:
  - assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
  - undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees,
  - advising the Trustees on the selection and review of the investment managers and on the investment aspects of any review of the platform provider,
  - providing training or education on any investment related matter as and when the Trustees see fit.

### Investment Managers

- The investment managers' main responsibilities include:
  - investing assets in a manner that is consistent with the objectives set,
  - ensuring that investment of the Scheme's assets is compliant with prevailing legislation,
  - providing the Trustees (or platform provider) with quarterly reports including any changes to their investment process and a review of the investment performance,
  - attending meetings with the Trustees as and when required,
  - informing the Trustees (or platform provider) of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
  - exercising voting rights on shareholdings in accordance with their general policy.

### Custodian

- The custodians used are responsible for the safe-keeping of the Scheme's assets.
  - The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

### Administrators

- The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustees.
- The Scheme's administrator is Buck.

### Platform Provider

- The Investment platform provider's main responsibilities include:
  - Providing access to a range of funds provided by various managers.
  - Providing the Trustee with quarterly reports including any changes to the managers investment process and a review of the investment performance of their portfolio.
  - Informing the Trustee of any changes in fee structure, internal performance objectives and guideline of any pooled funds within their portfolio as and when they occur.
  - The Scheme's platform provider is Columbia Threadneedle Investments Limited.

**Trustees' annual report and financial statements**  
Year ended 31 January 2021

Signed on behalf of the Trustees of the Cadogan Estates Limited 1995 Pension Scheme

Approved by the Trustee on 15 September 2020

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## Appendix 1– Fund Range and Objectives

### Fund options

The funds available to members are included in the below table. Benchmark indices and relative performance objectives of each fund are also outlined below. All performance targets are gross of fees and relate to rolling three-year periods unless stated.

Manager	Fund	Benchmark Index	Objective
Threadneedle	UK Equity High Alpha Fund	FTSE All Share Index	To outperform the benchmark by 3.5% p.a.
	Global Equity	MSCI AC World Index	To outperform the benchmark by 3.0% p.a.
	Corporate Bond	iBoxx GBP Non-Gilt Index	To outperform the benchmark by 0.75% p.a. (net of fees)
	Property	AREF/IPD UK Quarterly Property Fund Index	To outperform the benchmark by 1.0 to 1.5% p.a.
	Cash Fund	LIBID 7 days	To provide investors with an investment return similar to that of cash deposits
	Dynamic Real Return Fund	UK CPI	To outperform benchmark by 4.0% p.a. over 3.5 year time horizon
	Balanced Pathway	Composite equity, fixed income and property	To outperform the benchmark
BlackRock	BlackRock Aquila Life UK Equity Index	FTSE All Share Index	To track the benchmark index
	Aquila Life Over 15 Year Gilts	FTSE UK Gilts Government Over 15 Years	To track the benchmark index

The Scheme normal retirement age is set to age 65, but the Trustees allow members to select their own retirement age. The Trustees also allow members to opt-out of the default option and select from a range of alternative lifestyle options, or stand-alone funds that suit their individual circumstances.

To aid their decisions, information about the strategies available and the funds offered will be made available to members. Members are advised to take financial advice before choosing between these options.

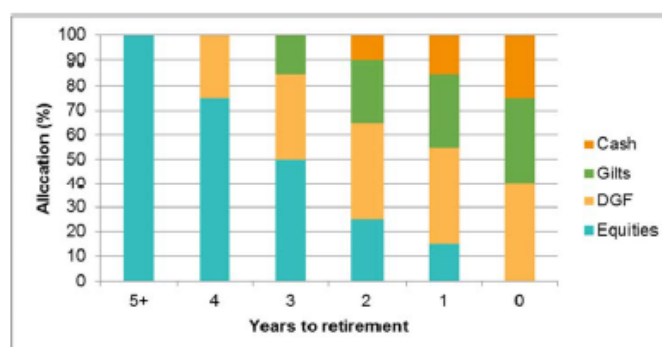
## Lifestyle strategies

The lifestyle strategies entail members' assets being switched between funds as they approach their target retirement date.

There are three Lifestyle Plans used by the Scheme as described below. These progressively phase members' assets out of the Threadneedle Global Equity Fund into funds which may be more suitable for members as they approach retirement, depending on their stated goals. These lifestyle plans are Drawdown Lifestyle, Annuity Lifestyle and Cash Lifestyle Plans.

### Drawdown Lifestyle Plan (Default option)

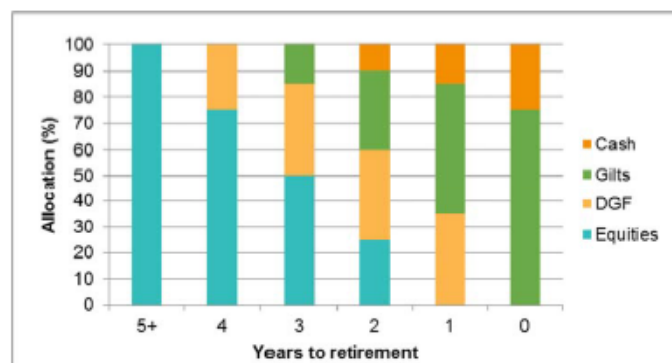
The chart below demonstrates how the transition under the Drawdown Lifestyle Plan will take place in the years leading up to a members' chosen retirement age:



This plan is designed for members who wish to drawdown income at retirement. The Cash fund is the Threadneedle Cash fund; the Gilts fund is the Aquilla Life Over 15 Year Gilts; the DGF fund is the Threadneedle Dynamic Real Return Fund.

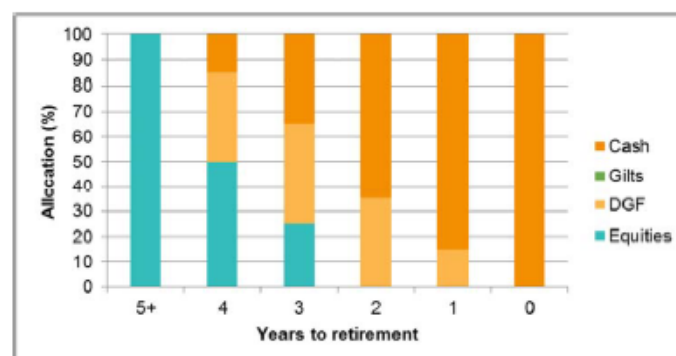
## Annuity Lifestyle Plan

The chart below demonstrates how the transition under the Annuity Lifestyle Plan will take place in the years leading up to a members' chosen retirement age:



## Cash Lifestyle Plan

The chart below demonstrates how the transition under the Cash Lifestyle Plan will take place in the years leading up to a members' chosen retirement age:





## Appendix 2 – Fees

### Investment manager fees

Manager	Fund	Investment Style	Management Fee % p.a.
Threadneedle	UK Equity High Alpha Fund	Active	0.80
	Dynamic Real Return	Active	0.50
	Global Equity	Active	0.50
	Corporate Bond	Active	0.25
	Property	Active	0.75
	Balanced Pathway	Active	0.44
	Cash Fund	Passive	0.10
BlackRock	BlackRock Aquila Life UK Equity Index	Passive	0.20
	Aquila Life Over 15 Year Gilts	Passive	0.15

### Investment consultancy fees

The investment consultant provides agreed services on a fixed fee basis, with additional projects provided on a time cost basis subject to agreement in advance.

The basis of remuneration is kept under review.

## Appendix C – Implementation Statement for the year ending 31 January 2021

### Introduction

This implementation statement has been prepared by the Trustees of the Cadogan Estates Limited 1995 Pension and Assurance Scheme (the Scheme). The statement:

- sets out how, and the extent to which, the policies set out in the Statement of Investment Principles (the SIP) have been followed during the year;
- describes any review of the SIP, including an explanation of any changes made; and
- describes the voting behaviour by, or on behalf of, the Trustees over the same period.

A copy of the SIP and a copy of this statement are available to members on request and may be accessed free of charge by visiting the publicly available website:

<https://www.cadogan.co.uk/propeller/uploads/2019/04/Chair-Statement-and-SIP-for-the-year-ended-31.01.20-UNSIGNED.pdf>

The Trustees' policies contained in the SIP are underpinned by their investor beliefs, which have been developed in consultation with their investment consultant.

### Trustees' overall assessment

In the opinion of the Trustees, the policies as set out in the SIP have been followed during the year ending January 2021.

### Review of the SIP

The Trustees' policies have been developed over time by the Trustees in conjunction with their investment consultant and are reviewed and updated periodically and at least every three years.

The SIP was reviewed during the scheme year as a result of changes in legislation effective from 1 October 2019 and 1 October 2020 as well as to incorporate other changes to the investment arrangements. This review resulted in the following policies being updated in September 2020.

- Policy in relation to financially material considerations, including environmental, social and governance (ESG) factors.
- Policy in relation to non-financial matters.
- Policy in relation to stewardship.
- Policy in relation to arrangements with asset managers.

### Investment strategy

The Scheme provides members with a range of funds in which to invest, together with some lifestyle strategies from which to make their investment choices. These aim to allow members to achieve the following:

- maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement;
- protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs; and
- tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.

The Trustees also provide a default strategy to provide a balanced investment strategy for members who do not make an active investment choice.

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A review of the default investment strategy and objectives was carried out on January 2021. This also included a review of the alternative lifestyle strategies and fund range.

As part of this review exercise, the Trustees:

- Considered market information around member investment and retirement behaviour and how this may translate to their particular scheme's membership.
- Considered changes which could be made to the glidepath of the default investment strategy.
- Considered alternative asset classes to incorporate into the default strategy and alternative lifestyle strategies and wider fund range.
- Considered the fees and expenses payable to members and the effect that any changes in investment strategy would have on these.
- Considered the possibility of allowing the members the option to invest in a sustainable investment fund.
- Considered adopting a longer de-risking period.

In considering these factors, the Trustees believe they have complied with their SIP regarding investment strategy considerations.

The next such review will be undertaken in 2024.

### **Policies in relation to the kinds of investments to be held, the balance between various kinds of investments and the realisation of investments**

The Trustees have given full regard to their investment powers as set out in the Trust Deed and Rules and have considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme invests in pooled funds to manage costs, diversify investments and improve liquidity.

During the year, the Trustees discussed the performance of the asset classes invested in and the attributes of the asset classes that contributed to that.

The investment managers maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Scheme (both within the default and self-select options). In addition, the design of the default strategy provides further diversification through the use of multiple funds throughout a member's working lifetime.

As part of the review of the investment strategy and the appointment of the investment managers the Trustees discussed the degree of diversification within the strategy.

Under normal market conditions the Trustees expect to be able to realise investments within a reasonable timescale although there remains the risk that certain assets may become less liquid in times of market stress. Dealing spreads and liquidity are monitored periodically by the investment consultant, particularly during periods of heightened volatility such as during the recent COVID-19 pandemic.

The majority of funds (excluding the property fund) in which the Trustees invest did not experience any liquidity issues that had any impact on members during the year.

The Threadneedle Property Fund (within the self-select range) had its dealing suspended in the wake of COVID-19 related market volatility. Buck recommended that the one member who was contributing regularly to the fund invest their future contributions to the Threadneedle Sterling (a cash like fund) Fund until the suspension was lifted. The suspension was lifted in September 2020.

Property funds and illiquid assets, such as private equity, have been excluded from the current default option investment strategy to help ensure the Scheme is able to meet potential liquidity demands.

### **Policy in relation to the expected return on investments**

The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Scheme's membership and having taken into account the risk considerations set out in the SIP.

The expected return of the default option was assessed during the year as part of the investment strategy review. The expected return of both the default option and the self-select options were considered during the year as part of SMPI calculations.

### **Policy in relation to risks**

The Trustees have considered risk from a number of perspectives. These are the risk that:

- the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
- investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
- investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit,
- the default option is not suitable for members who invest in it, and
- fees and transaction costs reduce the return achieved by members by an inappropriate extent.

The investment strategy for the default option has been chosen with the aim of reducing these risks.

The Trustees monitor these risks through the semi-annual performance monitoring reports and cost disclosure documents provided by and discussed with the investment consultant.

Two monitoring reports were received during the year. These did not highlight any significant concerns over the level of risk being run within the Scheme.

The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.

The risks inherent in the default option and self-select options were assessed during the year as part of the investment strategy review.

The Scheme investment booklet was updated during the year and information on risks was included within this document, to help facilitate member understanding of the risks they are running.

### **Policies in relation to their investment manager arrangements**

The Scheme's assets are invested in pooled funds which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustees have very limited to no influence over the objectives of these funds or the fees they charge (although fee discounts can be negotiated in certain circumstances).

There have been no changes to the benchmark objectives of the funds in which the Scheme invests over the year.

The Trustees, in conjunction with their investment consultant, have introduced a process to obtain and review the investment holding turnover and the associated costs incurred on the pooled funds used by the Scheme on an annual basis. The Trustees have received a report detailing the turnover costs incurred for each pooled fund used by the Scheme for 2018.

## **Trustees' annual report and financial statements**

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Trading costs are incurred in respect of member switches (including within the lifestyle strategy), and wider (Trustee-led) asset transfer work. The Trustees receive information on the expected costs of Trustee-led exercises as and when they occur, and the exercise is only undertaken if the expected benefits outweigh the expected costs. Information on potential ongoing member switching costs is included within the Chair's Statement.

No such analysis was undertaken during the year.

The investment managers have invested the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustees have paid their investment managers a fee which is a fixed percentage of assets under management.

The investment consultant has reviewed and evaluated the investment managers on behalf of the Trustees, including performance reviews, manager oversight meetings and operational due diligence reviews.

The Trustees and the investment consultant considered the alignment of the investment manager's arrangements with the Trustees' policies as part of the January 2021 review and are satisfied that these are appropriate.

### **Investment manager monitoring and changes**

During the year the Trustees received 2 reports from the investment consultant examining the performance of the pooled funds made available to members. The Trustees also received reports directly from the investment managers / platform provider.

The following changes to the investment manager arrangements were made during the year:

Closure of the self-select BlackRock Aquila Life UK Equity Index Fund and Threadneedle Balanced Pathway Fund in January 2021.

The reasons for these changes were:

Due to a decline in the popularity of these respective funds which led Columbia Threadneedle to believe they are too small to manage sustainably.

Appropriate written advice was provided by the investment consultant prior to these changes, in a paper dated January 2021.

### **Stewardship of investments**

The Trustees have a fiduciary duty to consider their approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustees can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through their investment managers.

The Trustees, in conjunction with their investment consultant, choose their investment managers and the specific pooled funds to use in order to meet specific policies. They expect that their investment managers make decisions based on assessments about the financial of underlying investments and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

During the year, the Trustees received training from their investment consultant on ESG issues, including stewardship and engagement.

The Trustees have also received the following additional training over the period:

Date	Provider	Subject
June 2020	Buck	SIP Regulatory Update
June 2020	Buck	Investment Consultant Objectives – measurement criteria training

### **Stewardship - monitoring and engagement**

The Trustees recognise that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustees detailing their voting activity.

The Trustees' also delegate responsibility for engaging and monitoring investee companies to the investment managers and they expect the investment managers to use their discretion to maximise financial returns for members and others over the long term.

### **Investment manager engagement policies**

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustees with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

Links to each investment manager's engagement policy or suitable alternative is provided in the Appendix.

These policies are publicly available on each investment manager's websites.

### **Exercising rights and responsibilities**

The Trustees recognise that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose annually a general description of their voting behaviour, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

The investment managers publish online the overall voting records of the firm on a regular basis.

The Trustees do not carry out a detailed review of the votes cast by or on behalf of their investment managers but rely on the requirement for their investment managers to provide a high-level analysis of their voting behaviour.

## Trustees' annual report and financial statements

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The Trustees consider the proportion of votes cast, and the proportion of votes against management and believe this to be an important (but not the only) consideration of investor behaviour. The latest available information provided by the investment managers is as follows:

<b>Voting behaviour</b>			
<b>Investment Manager</b>	<b>Period</b>	<b>Proportion of votes cast</b>	<b>Proportion of votes against management</b>
Threadneedle	01/01/2020-31/12/2020	97%	9%

## Trustees' engagement

The Trustees have undertaken a review of the investment manager's engagement policy including their policies in relation to financially material considerations.

The Trustees have considered the environmental, social and governance rating for each fund/investment manager provided by the investment consultant, which includes consideration of voting and/or engagement activities. This also includes those funds that do not hold listed equities.

The Trustees may also consider reports provided by other external ratings providers.

The Trustees have reviewed the investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustees recognise that engagement and voting policies, practices and reporting, will continue to evolve over time and are supportive of their investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

**Trustees' annual report and financial statements**

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**Appendix**

Links to the engagement Policies for the investment manager can be found here:

Investment manager	Engagement policy	Annual disclosure statement
Columbia Threadneedle Investments	<a href="https://www.columbiathreadneedle.co.uk/uploads/2020/10/4c45b3de68db9d1e74df186b80d004b5/en_frc_compliance_statement.pdf">https://www.columbiathreadneedle.co.uk/uploads/2020/10/4c45b3de68db9d1e74df186b80d004b5/en_frc_compliance_statement.pdf</a>	<a href="#">en_voting_rationales_2020.pdf (columbiathreadneedle.co.uk)</a> <a href="#">en_cti-corporate-governance-voting-principles-emea_feb-2021.pdf (columbiathreadneedle.co.uk)</a>