

Shoosmiths Retirement Savings Scheme
Chair's statement regarding the governance of defined contribution arrangements
Scheme year ending 31 October 2024

1. Introduction

- 1.1. This statement has been prepared by the Trustees (the Trustees) of the Shoosmiths Retirement Savings Scheme (the Scheme), to report on compliance with governance standards.
- 1.2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This statement covers the period from 1st November 2023 to 31st October 2024.

2. The Scheme's DC arrangements

- 2.1. The Scheme provides benefits on a DC basis only. The Scheme is run on a fully insured basis with Aviva as the sole provider.
- 2.2. The Scheme was closed to new joiners with effect from 1st January 2013.
- 2.3. Aviva provides administration and investment services, together with annual benefit statements.

3. Default investment arrangements

- 3.1. The Scheme operates a single investment strategy, a 'With Profits' fund operated and managed by Aviva, which constitutes the default fund (the Default) for the Scheme.
- 3.2. All the Scheme's assets are invested in the Aviva With-Profits Fund (Aviva Life & Pensions UK Ltd FLC With-Profits Sub-Fund).
- 3.3. As the Scheme is a 'fully insured' scheme, the Trustees are not responsible for deciding (nor are they able to decide or influence) the investment objectives and strategy adopted by the Scheme under the insurance policy with Aviva, which is the Scheme's sole investment.
- 3.4. Under the contract with Aviva, it would not be possible to make significant changes to the structure and services without forfeiting the current terms of the With-Profits Fund. In view of this, the Trustees' ability to make changes to the Scheme is limited.

Asset allocation of the default

- 3.5. We have provided further details in the table below of the underlying asset allocation of the default investment arrangement. We have provided this information in line with statutory guidance.
- 3.6. Within the default investment arrangement, the underlying assets do not change over time depending on the age of the member. However, fund managers may change the asset mix to improve the long-term performance of the Sub-Fund and to ensure that the Sub-Fund continues to meet its obligations.

Default Investment Arrangement (Data as at 31 December 2023, source: Aviva)

Asset Class	Allocation (%)
Cash	0.2%
Bonds	58.1%
Listed Equities	30.3%
Private Equity	0%
Infrastructure	0%
Property/Real Estate	7.1%
Private Debt/Credit	0%
Other	4.3%

Aims and objectives of the Default

- 3.7. As outlined in points 3.1 and 3.2, Aviva operates a single investment strategy, the objectives for which the Trustees are unable to influence, change, or add to within the existing framework. In addition, should the Trustees and/or members seek to transfer funds away from the Scheme on a bulk or individual basis as part of any investment changes made by the Trustees, Aviva may apply penalties or 'Market Value Adjustments' (MVAs) to member funds. In some cases, the advantageous annual bonus rates attached to members' accounts would be lost.

Review of the Default

- 3.8. The Trustees review the Aviva With Profits fund at scheduled Trustee meetings each year, including the following documents published by Aviva: <https://www.aviva.co.uk/investments/investment-products/select-investment/fund-guides/#flc-with-profits> (FLC With-Profits Sub-Funds):
- Principles and Practices of Financial Management (PPFM)
 - PPFM Summary of Changes
 - Board report to with-profits policyholders
 - With-Profits summary
- 3.9. The Trustees have agreed to closely monitor application of a 10% uplift applied by Aviva to new contributions (i.e. for each £100 contributed, £110 is invested), which Aviva may remove should annual contribution income fall below £270,000. This is considered a key trigger for the Trustees (along with the ongoing application of MVAs) in conjunction with Shoosmiths LLP (the Firm), to consider the future viability of the Scheme as an ongoing concern, particularly as the Scheme's active (contributing) members currently

comprise of c.9% of the overall membership. Total contribution income for the Scheme over the Scheme year was £1,187,727.04.

- 3.10. The Trustees can confirm that they have considered the With Profits returns declared by Aviva and these are consistent with the Trustees' aims and objectives for the Default.
- 3.11. In previous years, the Trustees have considered the merits of reviewing the investment opportunities offered to scheme members, however Aviva has confirmed that alternative investment options cannot be added to the Scheme. Therefore, following consideration by the Trustees of the points outlined above and the fact that active members can elect to join the Firm's Group Personal Pension Plan, the Trustees have determined not to formally review the Scheme's investment opportunities further at this time.

Further information on the Default

- 3.12. Details of the Default can be found in the attached Statement of Investment Principles that has been produced by the Trustees, in compliance with Section 35 of the Pensions Act 1995 and regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005. The statement was most recently reviewed in 2022, with the current statement dated 12th July 2022, and is due to be updated in the next Scheme year.

4. Core financial transactions

- 4.1. The Trustees have a duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following:
 - 4.2.1. investment of contributions
 - 4.2.2. transfers out of the Scheme
 - 4.2.3. payments out of the Scheme
- 4.3. Core financial transactions are undertaken by Aviva.

Controls and monitoring arrangements

- 4.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
 - 4.4.1. That Aviva has internal agreed service standards, but they do not publish the performance externally. Aviva is unable to provide the Trustees with a Scheme-specific Service Level Agreement (SLA), nor is it able to provide ongoing reporting to allow further monitoring. Aviva can provide an annual service level standards report across the book of business, which is reviewed by the Trustees. The Trustees have requested that Aviva review its approach to the provision of detailed service level reporting, to provide more detailed data relating to the Scheme, however this has not been resolved in the reporting period. Aviva has however confirmed its intention to provide SLAs and associated reporting as a matter of urgency. The Trustees understand that agreed service standards are monitored within Aviva, who subcontract the administration of the Scheme to Diligenta.
 - 4.4.2. That the Trustees' bank account is reconciled daily within the Firm's SAP system and is subject to monthly checks at Partner level.
 - 4.4.3. Additional measures that help to monitor the accuracy of core financial transactions, via an external audit of the Scheme's annual report and accounts and the administrator's annual checks on data quality.
 - 4.4.4. That the administrator's controls and processes are also subject to both an internal and external audit to review work against all standards to ensure quality is maintained.

- 4.4.5. That any material issues uncovered regarding inaccuracies with core financial transactions are included within the administrator's reporting to the Trustees.

Performance during the Scheme year

- 4.5. During the reporting year, core financial transactions (including payment of contributions, transfers out of the Scheme, and settlement of benefits at retirement) are, as far as the Trustees are concerned, processed accurately. This is evidenced by administration reports considered at each Trustee meeting.
- 4.6. The Trustees received MI reports from the administrator during the Scheme year, and were satisfied with the performance.
- 4.7. Neither Aviva's reports nor the audit of the annual report and accounts identified material issues with the accuracy of core financial transactions. Complaints made directly to Aviva have now been added as an item to the Trustee meetings to ensure full disclosure of any potential issues and to ensure they are resolved, and that high quality standards are maintained.

Assessment

- 4.8. In view of the controls and monitoring arrangements, and the lack of material issues experienced during the Scheme year, the Trustees believe that core financial transactions have been processed accurately. The Trustees continue to monitor Aviva's performance to the best of their ability, to ensure prompt processing of member enquiries and transactions.

5. Member-borne charges and transaction costs

- 5.1. In general, members bear charges and transaction costs within defined contribution (DC) pension arrangements, which will differ depending on the investment options in which their pension savings are invested:
- 5.1.1. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).
- 5.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

Charges in relation to the Scheme

- 5.2. The explicit administration costs (including costs associated with the management and operation of the Scheme) are borne by the Firm, and therefore have no bearing on member charging. However, for completeness we have referred to these as part of our assessment of Value for Members outcome, noted in this Chair's statement.
- 5.3. There are implicit costs applied by Aviva in its operation of the underlying With-Profits Fund. Aviva has confirmed these costs equate to circa 0.72%.

Impact of costs and charges

- 5.4. To demonstrate the impact of charges and transaction costs on members' pension savings over time, illustrations have been prepared and these are provided in the Appendix.

Value for members

- 5.5. Regulations require the Trustees to assess the extent to which the Scheme provides value for members (VFM).

- 5.6. The method to be used for this assessment changed for schemes with assets of less than £100m that have been operating for three years or more, effective for Scheme years ending after 31 December 2021. The Scheme fits these criteria.
- 5.7. The assessment comprises three components:
 - 5.7.1. An assessment of costs and charges relative to the average costs and charges for three comparator schemes.
 - 5.7.2. An assessment of net investment returns relative to the average net investment returns for three comparator schemes.
 - 5.7.3. A self-assessment across seven key metrics of scheme administration and governance.
- 5.8. For the relative assessments, costs and charges and net returns for default arrangements should be compared with those for the default arrangements of the comparator schemes. In addition, costs and charges and net returns for popular self-select funds should be compared with those for the nearest comparable funds in the comparator schemes (or, where there is no comparable fund, a comparator scheme's default arrangement).
- 5.9. The VFM assessment was undertaken in accordance with the statutory guidance for the Scheme year. Analysis was undertaken by Barnett Waddingham LLP and the findings considered and the outcome confirmed at a trustee meeting on 6th March 2025.
- 5.10. The following comparator schemes were used for the relative components of the assessment: Aegon Master Trust, Aviva Master Trust and Legal & General WorkSave Mastertrust.
- 5.11. The outcomes of the three components of the assessment were:
 - 5.11.1. Considering only the default investment strategy, in which all of the DC assets are invested, costs and charges for the scheme are significantly higher than the average for the comparator schemes. It should be noted that the charges relative to other With-Profits arrangements are competitive and, to some extent, further value is delivered for active members by the enhanced allocation rate of 110% i.e. contributions receive an initial 10% uplift on investment. The Trustees therefore concluded that the scheme provides moderate VFM in relation to costs and charges.
 - 5.11.2. Considering only the default investment strategy, in which all of the DC assets are invested, net returns for the scheme are moderately lower than the average for comparator schemes. This rating has worsened since the previous Scheme year, where net returns were closely comparable with the average for comparator schemes. The Trustees recognise that the bonus rate structure offered by the With-Profits fund is valued by the membership, with many longstanding members benefitting from relatively high annual bonus rates linked to contributions paid in previous years, and bonuses of 5% for new contributions within the Scheme year. The Occupational Pension Schemes Regulations 2021, and accompanying statutory guidance, require returns net of charges to be declared for a single lump sum allocation, however a single premium cannot receive extra credit. Taking this into account, and that the majority of members are now deferred and are not eligible for the enhanced allocation rate of 110% for contributions, the enhanced rate has not been factored into the net investment returns. As a result of the declining relative performance of the default strategy, and noting that we would usually expect With-Profits funds to offer more generous benefits than current default strategies in the market, the Trustees have concluded that the scheme provides poor VFM in relation to net returns.
 - 5.11.3. The Trustees considered all seven metrics across scheme administration and governance.

They believe the following detract value from the scheme's administration and governance services;

- Scheme administration provided by Diligenta, on behalf of Aviva, continues to be below the standard expected in the reporting period, with an increased number of member complaints recorded

since the previous Scheme year. Work remains ongoing to improve this, with greater transparency of activity being offered to the Trustees, and Aviva updating their administration services.

It was concluded that the scheme provides moderate value for members in relation to administration and governance.

- 5.12. Recognising the individual component assessments, the Trustees concluded that overall, the scheme does not continue to offer value for members. Administration (impacting on the member experience) and the governance support available from Aviva continues to be at a level that is below the standard expected in the reporting period. Whilst costs and charges are competitive relative to other With-Profits arrangements, net investment returns have continued to decline since the previous Scheme year, despite With-Profits funds usually offering higher returns than current default strategies in the market.

The method of assessment is prescribed. Factors that were not considered but that add value include:

- 5.12.1. The services fully paid for by the Firm, e.g. the administration and communication services, and the services of legal advisers, consultants and auditors;
- 5.12.2. The operation of the Trustee Board, with a duty to act in the best interest of members, which is paid for by the Firm;
- 5.12.3. The employer contributions available through the Scheme; and
- 5.12.4. The operation of salary sacrifice for employee contributions.

6. Trustee knowledge and understanding

- 6.1. Trustees are required to be conversant with a scheme's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets

Trustee knowledge and understanding requirements.

Approach

- 6.2. The Trustees aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the statement of investment principles, the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme year and access to professional advice.
- 6.3. The Trustees aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of Scheme assets through a combination of training and taking professional advice.
- 6.4. Two of the Trustees are senior pension lawyers within Shoosmiths LLP, who have significant experience in advising trustees and companies on pension and trust law. The Trustees also have to meet ongoing professional development requirements relevant to legal services.
- 6.5. There is a structured training programme in place that includes annual self-assessment by the Trustees to identify knowledge gaps and training needs in relation to emerging legislation, Scheme changes and upcoming matters in the Scheme's business plan. The training programme also includes completion of the Pensions Regulator's trustee toolkit. A training log is maintained in relation to training undertaken and is reviewed at each Trustee meeting.
- 6.6. Training is a standing item on each agenda and a record of training undertaken is recorded.
- 6.7. The structured training programme is supplemented with training activities such as attending seminars, conferences, and reading pensions-related articles.

- 6.8. The Trustees consult with professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the Trustees on relevant changes to pensions and trust law. Professional advisers also provide support in relation to understanding and reviewing the Scheme's documents, attending Trustee meetings and in delivery of training at these meetings.

Activities over the Scheme year

- 6.9. The Trustees reviewed the following Scheme documents:

- 6.9.1. the risk register
- 6.9.2. the internal disputes resolution procedure
- 6.9.3. the payment schedule
- 6.9.4. the member booklet
- 6.9.5. annual report and accounts

- 6.10. The structured training programme was followed during the Scheme year with annual self-assessments completed by all Trustees, and the training programme itself was also reviewed. The training log was also reviewed and updated.

- 6.11. The Trustees received training at trustee meetings over the Scheme year on:

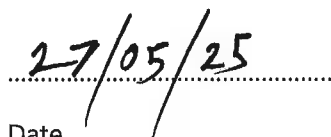
- 6.11.1. the new General Code and the need to establish and Effective System of Governance (ESOG)
- 6.11.2. the new value for money (VFM) framework
- 6.11.3. TPR's Corporate Plan
- 6.11.4. DWP's Consultation on VFM/Small Pots Assessment

- 6.12. The Trustees consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:

- 6.12.1. The Trustees are able to challenge and question advisers, service providers and other parties effectively
- 6.12.2. Trustees' decisions are made in accordance with the Scheme rules and in line with trust law duties
- 6.12.3. The Trustees' decisions are not compromised by things such as conflicts or hospitality arrangements



David Thompson, Chair of the Trustees



Date

Appendix – Illustrations on the impact of cost and charges

To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustees in conjunction with Aviva have produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative active and deferred members.