

# **Menzies Money Purchase Pension Scheme**

## **Annual statement by the Chair of the Trustee**

### **for the year to 31 March 2019**

#### **Summary**

This Statement confirms how the Trustee has met the statutory governance standards for the last scheme year (12 months to 31 March 2019) in relation to:

- Default arrangements;
- Charges and transaction costs;
- Value for members and the actions being taken to improve value for members;
- Processing financial transactions; and
- Keeping trustee knowledge and understanding up to date.

I, along with my fellow Trustees, am responsible for looking after the money you and other members have invested in our Scheme. This Statement confirms for the last year:

#### **The Scheme's default arrangement remained suitable for most members**

The Scheme is not a qualifying scheme for auto-enrolment purposes and is therefore not required by the Administration Regulations to have a default arrangement. The Trustee has chosen not to offer a default option to members of the Scheme.

#### **The charges and costs borne by members**

The charges paid by members for the Scheme's drawdown lifestyle option were in a range from 0.21% to 0.37% (or £2.10 to £3.70 per £1,000 fund value) dependent on where the member was relative to his/her target date.

The charges for the Scheme's other investment options, including the Additional Voluntary Contribution ("AVC") investment options, were in a range from 0.10% to 0.37% (or £1.00 to £3.70 per £1,000 fund value).

#### **The Scheme gave good value for members**

With the help of their advisers, the Trustee carried out their annual assessment of how the Scheme's services which members pay for compare to other similar schemes. The Trustee looks at both the quality of these services as well as the costs and charges members pay.

#### **The action being taken by the Trustee to improve value for members**

The Trustee currently intends to transition the Scheme into a Master Trust with Scottish Widows and expects to complete this within the next 12 months. Progress will be regularly monitored. An update for the Scheme year ending 31 March 2020 will be reported to members in the next Chair's statement.

#### **Financial transactions were carried out promptly and efficiently**

The Trustee monitors the performance of the administration of the Scheme. There were no issues with the Scheme's day to day administration in the last year.

#### **How the Trustee has kept their knowledge of pension matters up-to-date**

The Trustee has a programme of training and an annual training review to help maintain their knowledge of pension matters. In particular, the Trustee received training on master trusts in view of the planned transfer to a master trust.

We hope this Statement helps you understand how your pension scheme is run. If you have any questions on its contents, please contact the Scheme administrator.

The rest of this Statement describes in more detail the Trustee's management of the Scheme's defined contribution and additional voluntary contribution sections during the last year.

**For the record**

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Signed on behalf of the Trustee by:



Prof. J.P. Percy CBE

Chair of the Trustee of the Menzies Money Purchase Pension Scheme

Date: 23<sup>rd</sup> Sept 2019.

## a) Default arrangement

The Scheme does not presently have a default arrangement because it is not used for auto-enrolment.

The vast majority of Scheme members are currently invested in the drawdown lifestyle strategy. The Company and Trustee are currently exploring transferring the entirety of the Scheme's members into a Master Trust with Scottish Widows and so do not intend to review the current lifestyle arrangements. Part of the Trustee's due diligence work in considering whether to appoint Scottish Widows included a review of the lifestyling options offered by Scottish Widows.

## (b) Charges and transaction costs

The charges and transaction costs borne by members and the Employer for the Scheme's services are:

Service	By members	Shared	By the Employer
Investment management	Yes		
Administration			Yes
Governance			Yes
Investment transactions	Yes		

The presentation of the charges and transaction costs, together with the projections of the impact of charges and costs, have taken into account the statutory guidance issued by the Department for Work and Pensions.

### Charges

The charges quoted in this statement are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

### Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

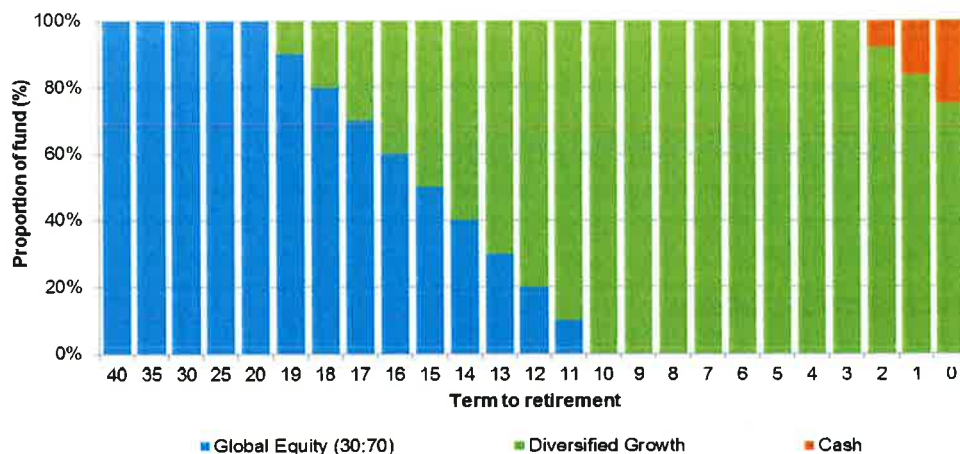
The FCA requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

The transaction costs shown in this statement do not include any costs members may incur from buying or selling units in the provider's funds as a result of the fund manager's fund price moving from a "bid" to "offer" basis (or vice versa).

### Charges for the drawdown lifestyle arrangement

The Scheme offers a number of "lifestyle strategies" which invest contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next.

The chart below shows how the funds for a member in the drawdown strategy will change as they approach retirement.



For further information on the lifestyle strategies offered by the Scheme please refer to the Statement of Investment Principles (SIP) available on the pensions section of the Company's website. The latest SIP is dated 23 September 2019.

During the year covered by this Statement the member-borne charges for the drawdown lifestyle were in a range from 0.21% to 0.37% of the amount invested or, put another way, in a range from £2.10 to £3.70 per £1,000 invested:

Period to retirement	Charge	
	% p.a.	£ per £1,000
40 to 20 years	0.21	2.10
15 years	0.29	2.90
10 years	0.37	3.70
At retirement	0.31	3.10

Source: LGIM

The table in Appendix 2a gives the charges for each fund used by the drawdown lifestyle option.

The Scheme is not a qualifying scheme for auto-enrolment purposes and so the drawdown lifestyle arrangement is not subject to the charge cap.

### Transaction costs for the drawdown lifestyle arrangement

The transaction costs borne by members in the drawdown lifestyle arrangement during the year were in a range from 0.03% to 0.04% of the amount invested or, put another way, in a range from £0.30 to £0.40 per £1,000 invested.

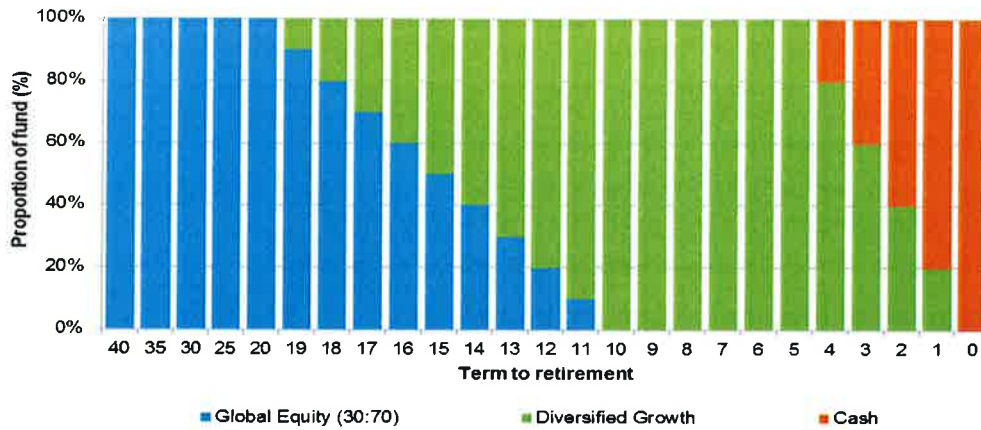
The table in Appendix 2a gives the transaction costs for each fund used in the drawdown lifestyle arrangement.

### Charges for the other investment options

The other lifestyle options outside the majority arrangement also invest contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

### Cash Lifestyle

The chart below shows how the funds for a member in the cash strategy will change as they approach retirement.



During the year covered by this Statement the member-borne charges for the cash lifestyle option were in a range from 0.12% to 0.37% p.a. of the amount invested or, put another way, in a range from £1.20 to £3.70 per £1,000 invested:

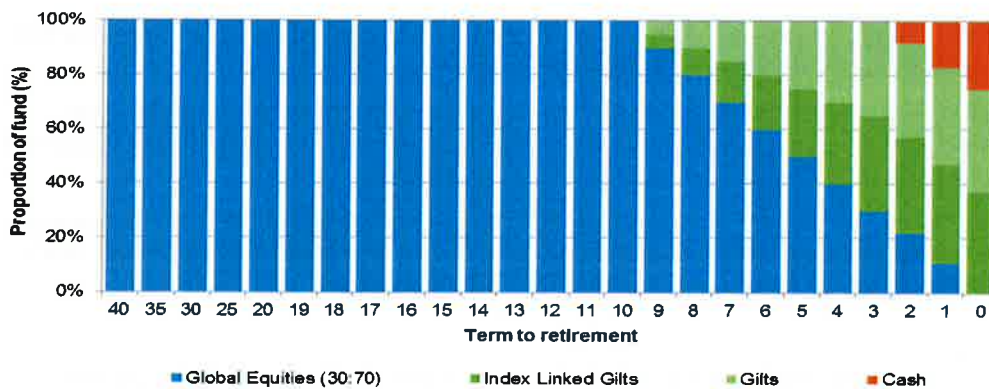
Period to retirement	Charge	
	% p.a.	£ per £1,000
40 to 20 years	0.21	2.10
15 years	0.29	2.90
10 years	0.37	3.70
At retirement	0.12	1.20

Source: LGIM

The table in Appendix 2b gives the charges for each fund used by the cash lifestyle option.

### Annuity Purchase Lifestyle

The chart below demonstrates how the portfolio of a participant in the cash strategy will change as they approach retirement.



During the year covered by this Statement the member-borne charges for the cash lifestyle option were in a range from 0.11% to 0.21% p.a. of the amount invested or, put another way, in a range from £1.10 to £2.10 per £1,000 invested:

Period to retirement	Charge	
	% p.a.	£ per £1,000
40 to 10 years	0.21	2.10
5 years	0.16	1.60
At retirement	0.11	1.10

Source: LGIM

The table in Appendix 2c gives the charges for each fund used by the Annuity Purchase lifestyle option.

### **Self-select funds and AVCs**

The Scheme offers members a choice of 9 self-select and AVC funds, all held with Legal and General Investment Management (LGIM).

During the year the charges for the self-select funds were in a range from 0.10% to 0.37% of the amount invested or, put another way, in a range from £1.00 to £3.70 per £1,000 invested.

The table in Appendix 2d gives the charges for each self-select and AVC fund.

### **Transaction costs for the other investment options and AVCs**

#### **Lifestyle options**

The transaction costs borne by members in the cash lifestyle option during the year were in a range from 0.00% to 0.04% of the amount invested or, put another way, in a range from £0.00 to £0.40 per £1,000 invested.

The transaction costs borne by members in the annuity purchase lifestyle option during the year were in a range from -0.01% to 0.04% of the amount invested or, put another way, in a range from a saving of £0.10 to a cost of £0.40 per £1,000 invested.

The table in Appendix 2b gives the transaction costs for each fund used in the cash lifestyle option.

The table in Appendix 2c gives the transaction costs for each fund used in the annuity purchase lifestyle option.

#### **Self-select funds and AVCs**

The transaction costs borne by members in the self-select and AVC funds during the year were in a range from -0.07% to 0.04% of the amount invested or, put another way, in a range from a saving of £0.70 to a cost of £0.40 per £1,000 invested.

The table in Appendix 2d gives the transaction costs for each self-select and AVC fund.

### **Missing information**

The Trustee is satisfied that they have obtained full information on charges and transaction costs.

### **Impact of costs and charges**

The Trustee has asked the Scheme's adviser to illustrate the impact over time of the costs and charges borne by members.

These illustrations show projected fund values in today's money before and after costs and charges for the average member in the scheme, based upon average age and income.

The tables in Appendix 3 to this Statement show these figures for the drawdown lifestyle, cash lifestyle, annuity purchase lifestyle options and two self-select funds illustrating high and low levels of investment risk, together with a note of the assumptions used in calculating these illustrations.

As an example, for an active member of the drawdown lifestyle arrangement at age 50 with the average pot size of c. £15k and average contributions, the level of charges and costs seen in the last year would reduce their projected pot value at retirement in today's money from £62,020 to £59,764.

Please note:

These illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow.

### **(c) Value for Members**

Each year the Trustee carries out an assessment of whether the charges and transaction costs for the investment options, which are borne by members, represent good value for members.

Value is not simply about low cost – the Trustee also considers the quality of the services which members pay for. With the help of their advisers the Trustee compares the charges and costs as well as the quality of the services against other similar schemes.

With the help from its advisors, the Trustee has assessed how well the Scheme's investment services provide value for members. The Trustee believes that, overall, the Scheme currently gives above average value for members. Based on knowledge of other schemes advised by our investment consultant, the Scheme's fees are in line with schemes of a similar size with similar investment funds.

In addition to the mandatory assessment of the investment services, the Trustee has also considered the Scheme's administration, communications and management/governance where costs are not borne by members. The Trustee is satisfied that these services also provide above average value for the Scheme member.

## **(d) Processing financial transactions and administration**

The Scheme is administered internally on the Trustee's behalf.

The Trustee has service level agreements (SLAs) in place with the internal team and regularly monitors core financial transactions of the Scheme via the administrator's quarterly reports which are produced by the internal pensions team. These include the payment and investment of contributions, fund switches, transfers out of the scheme and making payments to or on behalf of members. Any formal member complaints would be addressed at Trustee meetings however there were none during the Scheme year.

The Trustee monitored core financial transactions during the year including:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

The Trustee understands that the administrator monitors its performance against these service levels by:

- Monitoring daily transactions;
- Monitoring daily workflow items;
- Regular internal audits of administration procedures;
- Reviewing the level, causes and resolution of any complaints.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings have been paid promptly to the Scheme by the Employer;
- Receiving quarterly reports from the administrator on the processing of financial transactions and other administration processes against the agreed service levels;
- Considering the reasons for and resolution of any breaches of service standards;
- Arranging reviews of data accuracy;
- Receiving reports from the Scheme's Auditor, who independently tests sample transactions for accuracy and timeliness; and
- Considering member feedback including any complaints

The Trustee is satisfied that the service standards are consistent with the standard provided by third party administrators without incurring the costs of appointing an external firm. The Trustee has obtained confidence with the standards of service both through the experience and judgement of their advisers and through the independent Trustee Board members who have experience of third party providers at other schemes

Overall, the Trustee is satisfied that during the year:

- Core financial transactions were processed accurately, promptly and efficiently; and
- The wider administration of the Scheme achieved the agreed service standards.

## **Security of assets**

The Trustee has reviewed the structure of the funds used within the investment options. The Trustee believes that the current structures are appropriate for members when compared to other possible structures.

The Trustee has received training on the security of members' assets and will continue to keep this under review. The Trustee takes the security of assets into account when selecting and monitoring the funds used by the Plan.

## (e) Trustee knowledge and understanding

The Trustee's current practice to maintain and develop their level of knowledge and understanding of matters relating to the Scheme (in accordance with sections 247 and 248 of the Pensions Act 2004) is as follows:

- There is an induction process for newly appointed Trustee Directors, who are asked to complete the Pensions Regulator's "Trustee Toolkit"
- Trustee Directors are expected to have a working knowledge of the Scheme's Trust Deed and Rules;
- Trustee Directors are expected to have a working knowledge of the Scheme's Statement of Investment Principles as well as the investment concepts relevant to the Scheme;
- Trustee Directors are expected to have a working knowledge of the law and legislation relating to pension schemes;
- The Trustee Directors receive training sessions from their advisers during quarterly meetings to ensure an appropriate level of knowledge and understanding of current issues affecting DC pension schemes

The Trustee received the following training during the last year:

Date	Topic	Aim/benefit	Trainer
29/11/2018	Recent Developments in DC market	Increase understanding of current issues	Hymans Robertson
29/11/2018	New ESG requirements	Ensure Trustee is informed regarding increased requirements to consider climate risks	Hymans Robertson
29/11/2018	New Chair Statement Regulations	Ensuring Trustee understands new requirements for Chair Statements	Hymans Robertson
29/11/2018	Master Trust	Ensuring Trustee has knowledge of Master Trust structure and advantages and disadvantages to Scheme	Hymans Robertson
04/03/2019	Recent Developments in DC market	Increase understanding of current issues	Hymans Robertson

The Trustee Directors test their familiarity with the Scheme's documentation, pensions Law/Regulations and the Pensions Regulator's DC Code of Practice 13 and supporting Guides through regular training sessions and discussions with their advisers.

~~The Trustee also receives quarterly "hot topics" from their adviser covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.~~

The Trustee, with the help of their advisers, reviews the Statement of Investment Principles at least every three years. The last review was carried out in 2019 and the Statement was changed on 23 September 2019.

The Trustee has appointed suitably qualified and experienced actuaries, legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee reviews the effectiveness of its advisers periodically and also periodically reviews the appointment of its advisers.

Over the last year the Trustee has reviewed the governance structure of the Scheme and currently intends to transfer the Scheme to a Master Trust arrangement over the coming year.

As a result of these reviews, the Trustee is satisfied that during the last year they have:

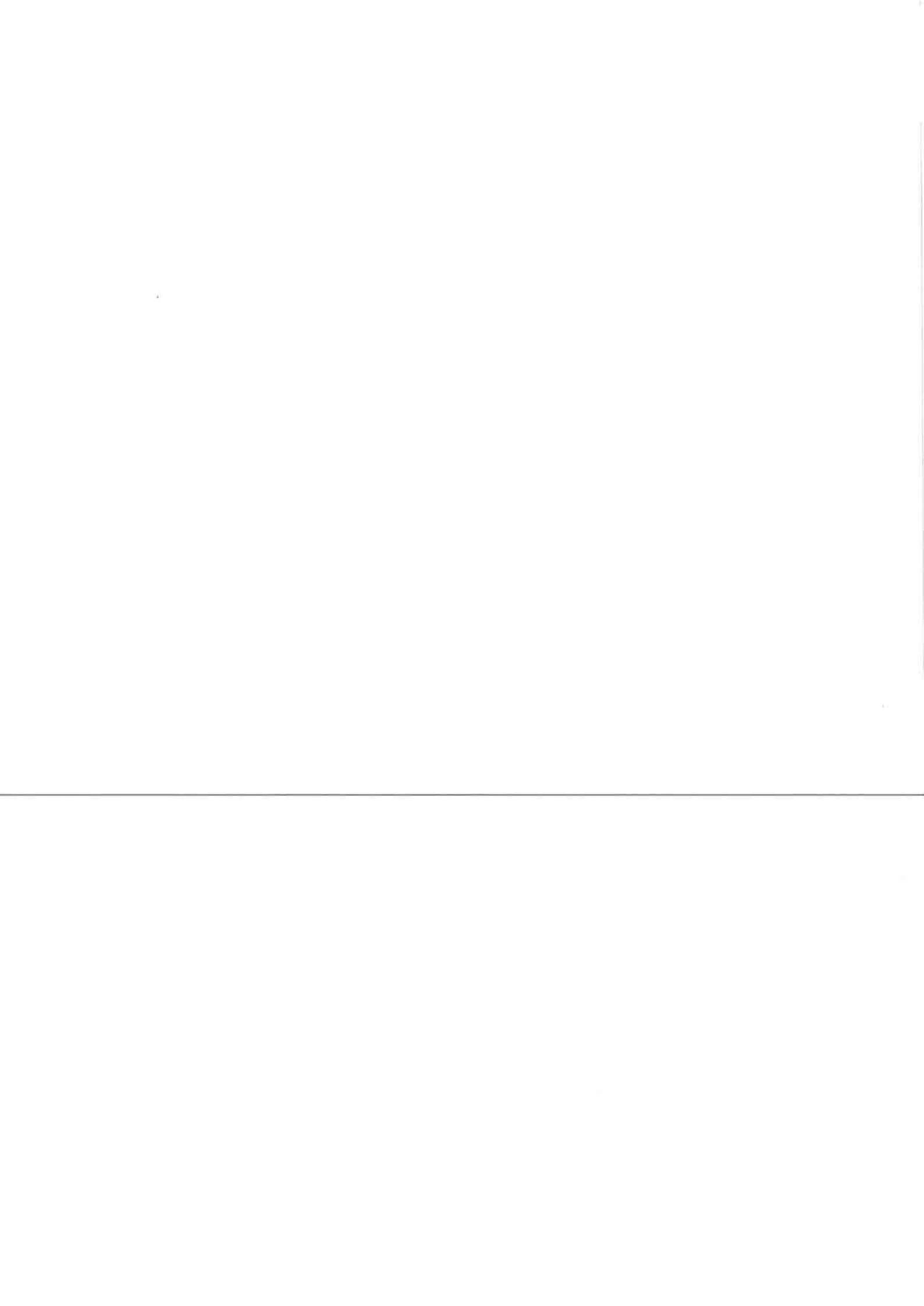
- a) Taken effective steps to maintain and develop their knowledge and understanding; and
- b) Ensured they received suitable advice.

The Trustee is satisfied that the combination of their knowledge and understanding together with access to suitable advice enabled them to properly exercise their duties during period covered by this Statement.

## **(f) Action plan**

The Company and Trustee currently intend to transfer the Scheme into a Master Trust with Scottish Widows. The Trustee expects that the entire Scheme will be transferred into the Master Trust within the next 12 months. Progress will be regularly monitored. An update for the Scheme year to 31 March 2020 will be reported to members in the next Chair's statement.

The Trustee has recently updated the Statement of Investment Principles (SoIP) to incorporate the new regulations concerning policies on Environmental, Social and Governance (ESG) considerations, and in particular climate risk. The new SoIP is publicly available online.



# Statement of Investment Principles for the Menzies Money Purchase Pension Scheme

## 1 Introduction

### 1.1 Background

This Statement of Investment Principles sets out the principles governing investment decisions for the Menzies Money Purchase Pension Scheme (the "Scheme").

The Scheme is a defined contribution (DC) pension arrangement. It is a qualifying scheme but not for auto-enrolment purposes.

The Trustees will publish the Statements of Investment Principles from 1 October 2019 and a statement each year from 1 October 2020 describing how these Statements have been followed in the last year.

### 1.2 Statutory Information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustees of the Scheme (MCS Trustee Limited) have considered written advice from the Trustees' investment consultants (Hymans Robertson LLP) and have consulted with the Principal Employer (John Menzies plc) in producing this Statement.

The Trustees will review this Statement, in consultation with the investment consultants and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Scheme's membership.

## 2 Investment Beliefs

### 2.1 Investment Risks

#### Principal risks

The principal investment risks which most members face are:

**Inflation risk** – The risk that the investment returns over members' working lives will not keep pace with inflation and do not produce adequate retirement benefits.

For members further from retirement, the lifestyle strategies invest in return-seeking assets during the growth phase, which are expected to produce returns well in excess of inflation over the longer term. These funds are also included in the self-select fund range.

**Benefit conversion risk** – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

For members planning to take cash at retirement, the Cash Lifestyle Strategy switches into a cash fund during the protection phase, providing a high degree of (but not complete) capital security. The cash fund is also offered as a self-select option.

For members planning to use income drawdown during their retirement, the Drawdown Lifestyle Strategy switches into funds that invest in a lower volatility portfolio of assets which are broadly suitable for income drawdown during the consolidation and de-risking phases.

For members planning to buy an annuity at retirement, the Annuity Lifestyle Strategy de-risks into funds investing in longer-dated bonds, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

**Volatility/Market risk** – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

For members approaching retirement, the lifestyle strategies increasingly invest in funds which are expected to be subject to lower levels of volatility. These funds are also included in the self-select fund range.

#### Other investment risks

Other potentially material investment risks which members may face include:

**Counterparty risk** – The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.

The Trustees, in conjunction with their investment manager, manage counterparty risk by investing in pooled funds that offer suitable counterparty protection.

**Active management risk** – The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.

The Trustees recognise that an actively managed fund may not deliver performance in line with the fund's objectives/agreed benchmarks. The Trustees regularly monitor fund performance in order to monitor this risk.

**Liquidity risk** – The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustees and/or members.

The Trustees are satisfied that the pooled funds in which they invest usually have sufficient liquidity and may be realised quickly if required. Member communications will warn members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

**Environmental, Social and Governance (ESG) risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

**Climate risk** - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

At this time, the Trustee has not made explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee does discuss the potential impact of climate risks with its adviser and managers on a periodic basis and will monitor developments in this area.

### **Managing investment risks**

The Trustees believe that taking investment risk is usually rewarded over the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustees offer three lifestyle strategies, which automatically move members from higher risk investments to lower risk investments as they approach retirement. The Trustees believe that the investment options available are appropriate for managing these risks.

### **Time horizon**

The Trustees monitor the age profile of the Scheme's membership to arrive at an appropriate investment horizon when considering all investment risks.

### **Financially material considerations**

The Trustees recognise that the consideration of financially material considerations, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Scheme's investment options.

### **Implementation**

The Scheme uses standard pooled funds offered Legal and General Investment Management (LGIM). This gives access to a range of funds while keeping down costs to members, but means that the Trustees cannot adopt an approach to managing financially material considerations specific to the Scheme. The Trustees carry out a review of LGIM on an annual basis, part of which is to consider LGIM's approach to ESG factors.

The Trustees seek to manage financially material considerations to protect long-term returns by:

- Considering the extent to which ESG issues, including climate risk, where relevant, are integrated into LGIM's investment processes. The Trustees are satisfied that LGIM has clearly articulated policies for managing financially material considerations, including climate change, and that they follow an approach which takes account of financially material factors;
- The Scheme uses passively managed funds, and the Trustee recognises that the funds' objectives are to deliver returns in line with their benchmarks (which may or may not take into

account ESG factors), which the Trustees believe will deliver appropriate risk adjusted returns. The Trustee will review the index benchmarks employed for the Scheme on at least a triennial basis.

- The Trustee expects the fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments;
- The Trustee prefers fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment, which LGIM are.

## 2.2 Investment beliefs

The Trustees' investment decisions are made in the context of their investment beliefs that:

- Managing the principal investment risks is the most important driver of good long-term member outcomes;
- As the Scheme invests for members over the long-term, financially material considerations including the impact of climate change will have a bearing on funds' expected levels of risk and return;
- Investment markets may not always behave in line with long-term expectations during the shorter-term;
- Taking investment risk is usually rewarded in the long term;
- Investment risks can be reduced by spreading investments both within and across asset classes;
- Actively managed funds, where the manager chooses where to invest, may not always deliver the expected investment returns in the shorter-term;
- Passively managed funds, whose returns are intended to track a market index, may produce investment returns more efficiently than actively managed funds in some markets.
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net returns.

## 2.3 Expected returns on investments:

The expected returns on the principal asset classes and fund types within the Scheme are:

**Equities** - should achieve a strong positive return relative to inflation over the longer-term, but tend to be the most volatile asset class over the shorter-term;

**Corporate Bonds** – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but also with a lower level of shorter-term volatility than equities;

**Fixed Interest Government Bonds (Gilts)** – should deliver a positive nominal return over the longer-term which is lower than that of equities and corporate bonds, but also with a lower level of shorter-term absolute volatility than equities and corporate bonds;

**Index-linked Government Bonds (Index-Linked Gilts)** – should deliver a return (with a degree of inflation protection) over the longer-term which is lower than that of equities and corporate bonds, but also with a lower level of shorter-term absolute volatility than equities and corporate bonds;

**Cash** – should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high degree of capital security;

**Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds** – values should move broadly in line with the financial factors influencing annuity rates;

**Multi-Asset Funds** – invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.

## 2.4 Investments held

The Scheme has an investment only contract with the Investment Manager. The Scheme invests through pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes. These funds may, but are not limited to, invest in:

- Quoted and unquoted securities of UK and overseas markets including equities, fixed interest, index-linked bonds and cash;
- Infrastructure and Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in the fund's portfolio of assets or help mitigate investment risks or to enhance investment returns.

The lifestyle strategies use funds across asset classes and across the risk/reward spectrum. The self-select fund range offers members a choice of funds across asset classes and across the risk/reward spectrum.

The Trustees consider that all of the stated asset classes are suitable investments for the Scheme, while the use of pooled funds enables a balance of investments to be held at a security level within each asset class or fund.

## 2.5 Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the lifestyle investment strategies or as requested by individual members. The Trustees normally expect the investment manager to be able to realise the Scheme's funds within a reasonable timescale. The Trustees recognise that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds in some market conditions to protect the interests of all investors in a fund.

## 2.6 Diversification

Given the size and nature of the Scheme, the Trustees invest on a pooled fund basis undertaken through an investment manager. The investment manager is expected to maintain diversified portfolios. Subject to the funds' benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and, for multi-asset funds, of asset classes.

The Trustees are satisfied that the range of funds used by the Scheme provide adequate diversification within and across asset classes.

## 2.7 Member attitude to risk

The Trustees recognise that:

- Members have differing investment needs and that these needs change during the course of their working lives; and

- Attitudes to investment risks, and the need for investment returns, will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

As a result, the Trustees believe that a range of investment options should be offered to members.

## 2.8 Member benefit choices at retirement

Members have a choice at retirement of:

- Taking cash at retirement;
- Taking Uncrystallised Funds Pension Lump Sums ("UFPLS");
- Using Flexible Access Income Drawdown ("FAD") during their retirement; or
- Buying an annuity at retirement or several years into their retirement.

The Trustees have considered which of these flexibilities will be offered to members. Currently cash and UFPLS will be provided within the Scheme, but members wanting to purchase an annuity or use FAD need to transfer their DC Pot to a suitable arrangement outside the Scheme.

The Trustees believe that members' choices of benefits at retirement will be strongly influenced by:

- The size of their DC Pot in the Scheme;
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefits) and workplace group personal pension plans;
- Other sources of income including non-pension savings and partner's pension provision.

In practice, the Trustees can only reliably take the likely size of members' DC Pots in the Scheme into account. The Trustees believe that a typical member, without significant sources of income outside the Scheme, could be expected to act mostly as follows:

- Small pots – would be taken as cash or UFPLS.
- Medium sized pots – would be taken as UFPLS or buy an annuity at retirement.
- ~~Larger pots – would be taken partly as cash at retirement and then FAD income drawdown during retirement (although some may use part of their DC Pot to buy an annuity at, or some years into, retirement).~~

## 3 Investment Objectives

### 3.1 Overall objectives

The Trustees' overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustees believe that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to:

- Optimise the value of their retirement benefits from a given level of contributions, while at the same time,
- Aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits/retirement income streams.

### 3.2 Default Option

The Scheme is not a qualifying scheme for auto-enrolment purposes and is therefore not required by Regulations to have a Default Option. The Trustees have chosen not to offer a Default Option to members of the Scheme.

The Scheme's policy is not to enter any prospective member to a specific fund/lifestyle arrangement without their consent. This means that ultimately a member will not join the Scheme unless they make an active choice.

### 3.3 Investment options

The Trustees believe that the following investment options are appropriate to achieve the overall objectives of the Scheme:

#### Lifestyle strategies

The alternative lifestyle strategies are designed to invest in assets at the point of retirement which are most closely matched to members' requirements after retirement.

Following the changes brought about by the 2014 Budget to give DC members significant added flexibility in terms of what they can do with their pension assets at retirement, the Trustees carried out a review of the Scheme's lifestyle strategies in March 2015.

The Trustees considered a number of factors as part of this review, including: membership profile, membership categories, members' projected pot sizes at retirement, contribution levels, and the likely return on investment. The results of the analysis were as follows:

1. There was a wide spread of members' projected pot sizes at retirement;
2. The majority of members in the run-up to retirement had relatively small pot-sizes (i.e. £30k or less);
3. Overall, pot sizes were relatively low. However, when factoring in contributions for younger members, many of the final pot sizes could grow to over £30k.

The Trustees believed that members with projected pot sizes of £30k or less may be more likely to choose a full cash option at retirement, and members with projected pot sizes of more than £30k may be more likely to take income drawdown at retirement.

Based on this analysis, as well as the Trustees' beliefs noted above, the Trustees agreed to offer members two new lifestyle strategies in addition to the lifestyle strategy that targets an annuity purchase at retirement. The lifestyle options offered to members are therefore:

- Drawdown Lifestyle Strategy
- Cash Lifestyle Strategy
- Annuity Lifestyle Strategy

Details of all three lifestyle strategies are noted in Appendix 3 (there is also an additional legacy annuity lifestyle arrangements that as at 30 June 2017 4 members had selected. This legacy option is no longer available to members to select).

The new lifestyle strategies were implemented in May 2016. The Trustees agreed to allocate current members according to the present value of their projected pot size at retirement (based on 31 March 2015 SMPPI projections). Therefore, in line with the Trustees' beliefs previously noted, members with projected pots of £30k or less were transferred to the Cash Lifestyle Strategy and members with projected pots of more than £30k were transferred to the Drawdown Lifestyle Strategy (unless the members opted otherwise).

A high level review of the lifestyle strategies will be conducted for the Trustees annually, with a formal review every three years or following significant changes to governance requirements.

#### **Self-select funds**

The self-select fund range is provided for members who want to take an active part in choosing where their DC Pot is invested and complements the lifestyle strategies. The self-select fund range covers a spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their DC Pot more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

Full details of the investment options are provided in Appendix 3.

## 4 Governance

### 4.1 Trustees' Powers

The Trustees will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

### 4.2 Responsibilities

The parties principally responsible for the governance and operation of the Scheme are:

The **Employer** is responsible for paying the contributions and for providing support to the Trustees to help govern the Scheme.

The **Trustees** run the Scheme in accordance with its Rules and choose the providers. The Trustees do not give advice to individual members on their fund selections. Members are encouraged to take independent financial advice when making their individual investment choices. In preparing this Statement, the Trustees have taken into account current guidance from the Pensions Regulator.

The **Pensions Team** maintains records of members' funds and calculates benefits.

**Members** should choose the investment option(s) in which contributions are invested and consider how they will use their pension pots at retirement. Members also pay contributions to the Scheme.

The role of the **Investment Consultant** is to give advice to the Trustees on the development of a clear investment strategy for the Scheme including the lifestyle strategies and self-select fund range. It provides general advice in respect of the Scheme's investment activities. It advises on the construction of an overall investment management structure and fund offering that meets the objectives of the Trustees. It also provides views on the investment manager used by the Scheme and assists the Trustees in the selection and appointment of appropriate investment managers when necessary.

The **Investment Manager** is responsible for the day-to-day investment management of the funds' assets. Having taken advice from the Scheme's investment consultant, the Trustees are satisfied that the appointed Investment Manager has sufficient experience and expertise to carry out their role. The Trustees have delegated all day-to-day investment management decisions to the Investment Manager authorised under the Financial Services & Markets Act 2000.

The **Custodians** are appointed by the Investment Manager and are responsible for the safekeeping of the assets of the funds and processing the settlement of transactions.

The **At Retirement Adviser** has been appointed by the Trustees to provide advice to members at retirement.

The responsibilities are described in greater detail in Appendix 1.

### 4.3 Conflicts of interest

The Trustees maintain a register of interests of each of the Trustee Directors and their advisers. This register is reviewed at each Trustee meeting to ensure that any potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

In the event of a conflict of interests, the Trustees will need to ensure that contributions for the default option are invested in the sole interests of members and beneficiaries.

#### **4.4 Communication**

The Trustees communicate regularly with all stakeholders. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Providing communications to Scheme members;
- Producing the Annual Report and Accounts which includes the Chair's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the investment consultants, investment manager and the administrator;
- Providing a range of literature to assist members in making their investment decisions. In addition, members have access to factsheets for each fund.

#### **4.5 Service Providers**

Details of the current service providers and Investment Manager to the Scheme are set out in Appendix 2 to this Statement.

#### **4.6 Fees**

Details of the current fees for the Scheme's service providers and funds are set out in Appendix 4 to this Statement.

## 5 Monitoring

### 5.1 Investment Performance

The Trustees regularly review the performance of each fund in which the Scheme invests against its stated performance objective.

### 5.2 Lifestyle Strategies

The Trustees monitor the suitability of the objectives for the lifestyle strategies and the performance (after the deduction of charges) against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

### 5.3 Charges

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustees annually to ensure that they represent "value for money" relative to the needs of the membership.

Details of the current charges are set out in Appendix 4 to this Statement.

### 5.4 Transaction costs

The Trustees monitor the funds' transaction costs to ensure that they are reasonable and represent value for money to members.

### 5.5 Investment process

The Trustees monitor the processes whereby contributions in respect of members are invested in and money is disinvested from the investment options to pay benefits.

### 5.6 Non-financial factors

The Trustees recognise that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustees note that a majority of members have not made active investment choices and so the Trustees believe that most members are unlikely to have strong views on where their savings are invested. The Trustees have therefore decided that it would not be worthwhile surveying members' views on non-financial factors relating to the Scheme's investments. The Trustees will instead take into account what, in their reasonable opinion, members' views of non-financial factors are likely to be.

The Trustees note that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

### 5.7 Chair's statement

The Chair's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year.

## 6 Stewardship

### 6.1 Members' financial interests

The Trustees have requested that the Investment Manager has the financial interests of the members as their first priority when choosing investments.

### 6.2 Environmental, Social and Governance issues

The investment manager may take environmental, social or governance considerations into account only when these factors do not conflict with the financial interests of members.

The Trustees periodically review the investment manager's policies in respect of socially responsible investing. The Trustees are satisfied that the investment manager's policies are consistent with the above approach. The Investment Manager is a signatory of the UK Stewardship Code and the United Nations Principles of Responsible Investment. The Trustees are supportive of the UK Stewardship Code.

### 6.3 Voting Rights

The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the Investment Manager and to encourage them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds.

Where relevant, the Trustees have reviewed the voting and engagement policies of the Investment Managers as well as their approach to governance, and determined that these policies are appropriate. On a regular basis, the Trustees will request that the Investment Managers provide details of any change in their house policy.

Where appropriate, the Trustees will engage with and may seek further information from the Investment Managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it is sometimes appropriate for the Investment Managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustees aim to review engagement activity undertaken by the Investment Managers as part of their broader monitoring activity.

## 7 Review of Statement

This Statement of Investment Principles was completed in September 2019. It will be next reviewed no later than 2022.

**Signed on behalf of the Trustees of the Menzies Money Purchase Pension Scheme:**

Name	Signature	Date
PROFESSOR JOHN P PERCY CBE		23 Sept 2019

## Appendix 1 - Responsibilities

The responsibilities outlined in section 4 are as follows.

### Trustees

The Trustees' primary investment responsibilities include:

- Operating the Scheme in accordance with its Trust Deed and Rules.
- Ensuring that the investment options are suitable for the Scheme's membership profile.
- Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultants.
- Appointing investment consultants and other advisors as necessary for the good stewardship of the Scheme.
- Appointing the investment managers who invest the Scheme's assets.
- Assessing the performance, charges and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the investment consultants.
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Preparing an annual Chair's statement for inclusion in the Annual Report and Accounts.

### Employer

The Employer is responsible for paying the contributions, providing membership data and for providing support to the Trustees to help govern the Scheme.

### Investment Consultants

The investment consultants' main responsibilities include:

- Assisting the Trustees in the preparation and annual review of this Statement in consultation with the Principal 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 performance of the Scheme's investment managers.
- Providing training or education on any investment related matter as and when the Trustees see fit.

### Investment Manager

The investment manager's main responsibilities include:

- The day-to-day investment management of the funds' assets.
- Exercising voting rights on shareholdings in accordance with their general policy.
- Following its general policy on socially responsible investment.

**Custodian**

The Custodians are appointed by the investment manager. The custodians are responsible for ensuring the security of the funds' underlying assets and recording sales and purchases of the funds' underlying assets.

**Pensions Team**

The Pensions Team is responsible for passing contributions to the investment manager and ensuring that members are allocated the correct number of units in the funds. It is also responsible for general administration, including record-keeping, providing members with annual benefit statements and paying benefits when they become due.

The Pensions Team's main investment related responsibilities include:

- The prompt investment and reconciliation of contributions.
- Undertaking switches between funds as required.
- Maintaining records of the members' investments.
- Realising investments to pay benefits.

**Members**

Members are responsible for choosing the investment option(s) in which contributions are invested, consistent with their tolerance of risk and likely benefits at retirement. Members also pay contributions to the Scheme.

**At Retirement Adviser**

The Trustees provide access to a Member Retirement Adviser for member advice at retirement (this is paid for by the Employer). Members deal directly with the Member Retirement Adviser (unless they opt to go elsewhere for advice).

## Appendix 2 – Service Providers

The Trustees have appointed the following service providers:

### **Investment Consultant**

The investment consultant is Hymans Robertson LLP.

### **Investment Manager**

The Investment Manager is Legal & General Assurance (Pensions Management) Ltd (“L&G”)

### **Administration**

The administration of the Scheme is carried out by the in-house Pensions Team.

### **Custodians**

The Funds’ custodians are appointed by the investment managers.

### **Member Retirement Adviser**

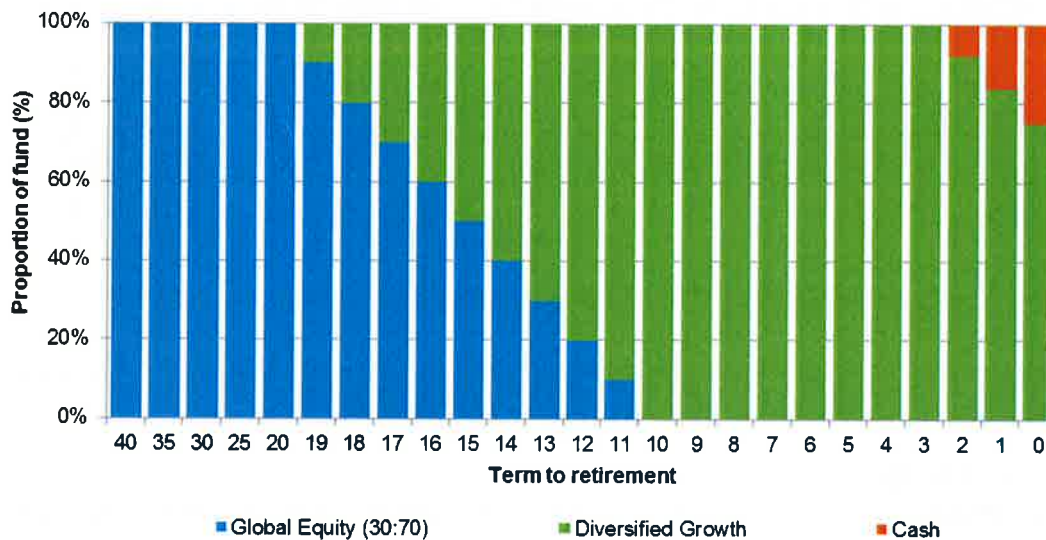
Hargreaves Lansdown have been appointed to provide advice to members at retirement.

## Appendix 3 – Investment Options

### Lifestyle Strategies

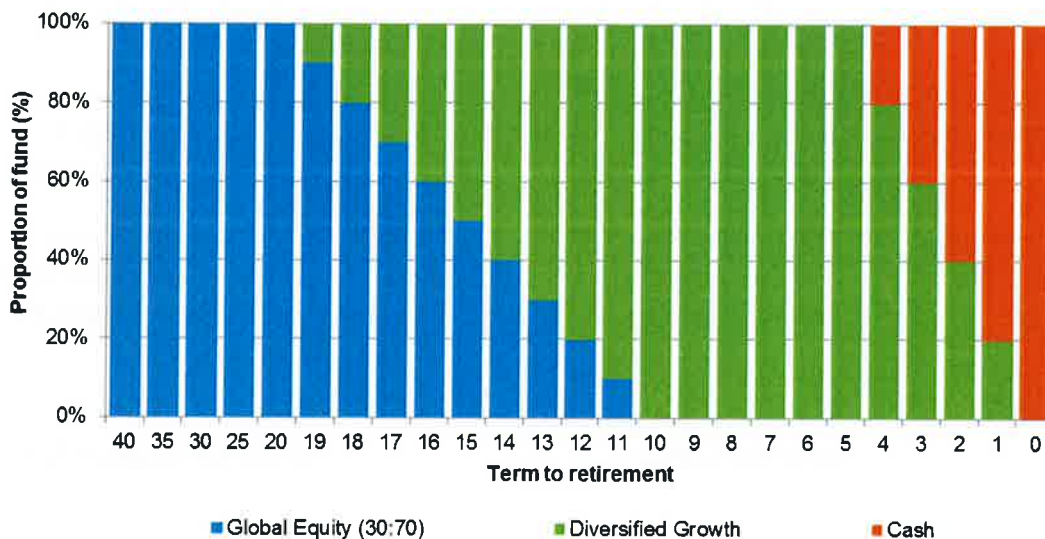
#### Drawdown Lifestyle Strategy

This strategy invests in passively managed global equities in the “growth” phase in order to grow members’ assets in real terms when they are many years from retirement. It then begins to de-risk gradually into a multi-asset fund 20 years from a member’s selected retirement date. The de-risking from equities to the multi-asset fund ends 10 years from retirement so that the strategy is fully invested in the multi-asset fund between 10 years and 3 years from retirement. Finally, three years from retirement, the strategy de-risks into cash so that at the point of retirement a member’s assets are invested 75% in the multi-asset fund and 25% in cash.



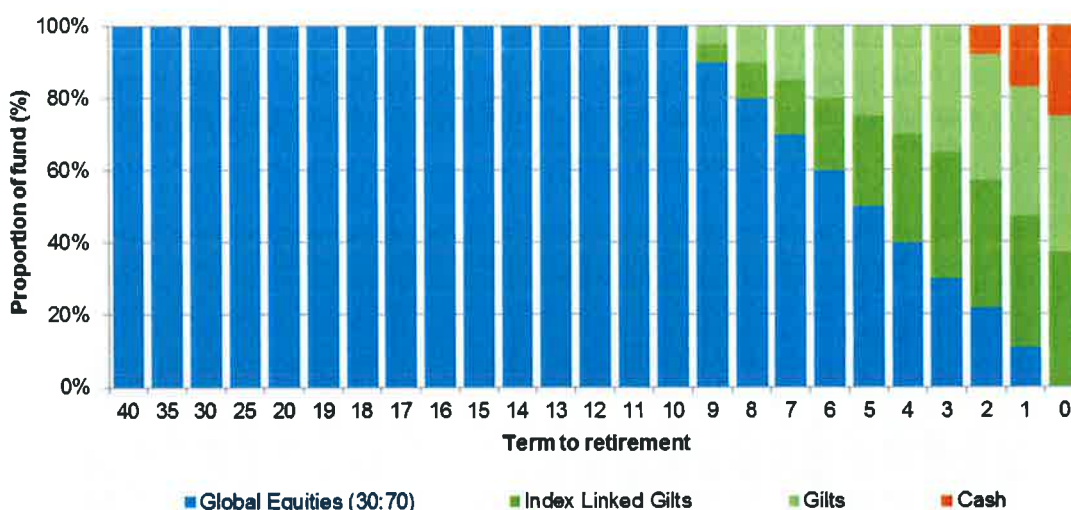
#### Cash Lifestyle Strategy

This strategy invests in passively managed global equities in the “growth” phase in order to grow members’ assets in real terms when they are many years from retirement. It then begins to de-risk members’ assets into a multi-asset fund from 20 years from a member’s selected retirement date. The de-risking from equities to the multi-asset fund ends 10 years from retirement so that the strategy is fully invested in the multi-asset fund between 10 years and 5 years from retirement. Finally, five years from a member’s selected retirement date, the strategy gradually de-risks into 100% cash.



## Annuity Purchase Lifestyle Strategy

This strategy invests in passively managed global equities in the “growth” phase in order to grow members’ assets in real terms when they are many years from retirement. It then begins to de-risk gradually into bonds (index-linked gilts and gilts) 10 years from a member’s selected retirement date. Finally, three years from retirement, the strategy de-risks to a final position of 75% in bonds and 25% cash.



There is also an additional legacy annuity lifestyle arrangements that at 30 June 2017 4 members had selected. This legacy option is no longer available to members to select.

## Self-Select Fund Range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles:

Fund	Objective / Benchmark	Notes
Cash Fund	Deliver competitive rates of return from cash deposits and other short term investments. Benchmark is 7 day LIBID.	Invests in cash and other short term deposits.
Over 5 year Index-Linked Index Fund	To track the FTSE Over 5 Year Index Linked Gilt index.	Invests in UK-over 5 year government issued index-linked bonds
Over 15 year Gilt Index Fund	To track the performance of the FTSE Over 15 Year Gilt index	Invests in longer dated government-issued bonds
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	To track the iBoxx £ Non-Gilt Sovereign & Sub-Sovereign AAA All Stocks Index (including re-invested income)	Invests in bonds issued by companies and supranational bodies which fall within the AAA rating category
UK Equity Index Fund	To track the performance of the FTSE All Share Index	Invests in shares of UK companies broadly in line with

		their weighting in the relevant market index
World (ex UK) Equity Index Fund	To track the performance of the FTSE AW-World (ex-UK) Index (including re-invested income)	Invests in shares of companies outside the UK broadly in line with their relevant market index
Global Equity Market Weights 30:70 Index Fund (75% GBP currency hedged)	Composite index	Invests on a passive basis with 30% UK equities/ 70% global equities. The majority of currency risk is mitigated through hedging to Sterling
Global Equity Fixed Weights 60:40 Index Fund	Composite index	Invests on a passive basis with 60% UK equities/40% global equities
Retirement Income Multi-Asset Fund	Cash + 3.5% p.a.	Invests in a diversified range of asset classes and employs active allocation of capital between asset classes and securities depending on the market environment.

Members cannot invest concurrently in self-select funds and a lifestyle strategy or more than one lifestyle strategy.

## Appendix 4 – Fees and Charges

### Investment Management

The investment manager applies the following charges for investing in the funds selected by the Trustees:

Fund	Total Charge *
Cash Fund	0.125%
Over 5 year Index-Linked Index Fund	0.10%
Over 15 year Gilt Index Fund	0.10%
AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund	0.15%
UK Equity Index Fund	0.10%
World (ex UK) Equity Index Fund	0.22%
Global Equity Market Weights 30:70 Index Fund (75% GBP)	0.20%
Retirement Income Multi-Asset Fund	0.36%

Source: L&G

\* The Total Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's Annual Management Charge and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets.

The charges for the investment options are borne by the members.

The funds' total charges and transaction costs are monitored by the Trustees. The results of this monitoring are set out in the annual Chair's statement which is included in the Trustees' annual report and accounts.

### Investment Consultant

The Scheme's Investment Consultant is paid for on a time-spent fee basis and the cost is borne by the Employer. The Trustees believe that this approach ensures that all advice is impartial and independent.

### Administration

In terms of the in-house administration of the Scheme, the administration cost is borne by the Employer.

### Value for Members

The Trustees conduct an annual assessment of what they believe constitutes value for members for the Scheme. Results of this assessment will be published in the Scheme's annual report & accounts.