

Fellowes Limited Retirement Benefits Scheme 5 April 2023 Chair's Statement

Chair's Statement – 5 April 2023

In accordance with the requirements of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 ('the Regulations'), the Trustees are required to provide a statement relating to the governance of the defined contribution benefits within the Scheme. This statement covers the period from 6 April 2022 to 5 April 2023 and has been prepared by the Chair of the Trustees – Andrew Laming.

Introduction

The Scheme is a hybrid scheme with a defined benefit section which means that the benefits under it are calculated on a pre-determined basis specified in the Scheme Rules. The Scheme also has a defined contribution section, which provides benefits to members who have accrued pre 97 benefits with a Guaranteed Minimum Pension (GMP) underpin ie the greater of their defined contribution fund and the value of their GMP is paid on retirement or on transfer out of the Scheme. Currently the GMP underpin benefit is paid rather than the value of the defined contribution fund.

There are no active members and therefore no new additional voluntary contributions (AVCs) made to provide additional benefits at retirement.

Governance of the default investment arrangement

As at 5 April 2023, the defined contribution funds under management were:

Fund	Funds under Management
Prudential With-Profits Fund (Pre 6 April 1997)	£1,383,880*
Prudential With-Profits Fund (Post 6 April 1997)	£58,066*
Prudential With-Profits Fund (AVCs)	£490,113*
Total	£1,932,059*

*includes terminal bonus application.

The DC Section currently only provides one investment option – the Prudential With-Profits Fund. As a result, 100% of member funds are invested in this investment fund and it is, therefore, the Scheme's default investment arrangement, as defined in the Regulations.

The Trustees are keen to ensure that assets are invested in the best interests of members and beneficiaries. A formal review of the investment strategy of the defined contribution benefits was undertaken in October 2022 and it concluded that the fund remained appropriate for members.

The Trustees have also considered the available information about the investment performance of the fund in which members of the Scheme are currently invested. A bonus rate of 1.50% was applied in the 2022/23 scheme year, with an interim bonus rate of 2.00% being declared from April 2023. A final bonus would also be added depending on the member's contribution history.

Further information about the bonuses payable can be found at [Annual Bonus Rates Table | Prudential \(mandg.com\)](#) in the Corporate Pensions section.

Fellowes Limited Retirement Benefits Scheme Chair's Statement (continued)

The Trustees have prepared a Statement of Investment Principles which sets out the Trustees' aims and objectives relating to investment strategy. The Statement was last updated in April 2023. A copy of this document is available online and can be found at <https://www.fellowes.com/qb/en/support/retirement-benefits-scheme.aspx>.

Net investment returns

The following table reflects the performance of each fund over varying periods based on investment after charges have been deducted and has taken account the statutory guidance when preparing this section of the statement. The have been calculated on a geometric basis and assume a £10,000 investment fund.

Annualised returns as of 5 April 2023		
Fund	1 year	5 years
Prudential With-Profits Fund	1.5%	1.7%

Prudential are only able to provide net investment returns for 1 and 5 years.

Please note that these returns are based on annual bonuses only and do not include any final bonuses that may be payable and could boost overall net returns.

Following the latest investment review, the Trustees are satisfied that the investment performance (net of fees) remains in line with the stated objectives for the funds available to members.

Charges and transaction costs

The With-Profits Fund available to members is subject to an assumed annual management charge (AMC) of 1.00% per annum. This charge is taken into account when declaring annual bonus rates rather than being an explicit charge deducted from members' funds. Members are no longer subject to a paid-up fee of £10 per annum. This fee was removed in 2017.

In addition to these member charges, members may also incur transaction costs (incurred as a result of buying, selling, lending, or borrowing investments). Prudential have confirmed their transaction charges (on average 0.10% over the last 5 years) are incorporated into the AMC.

A Market Value Reduction may be applied to the With Profits Fund on transfer or encashment before maturity. This ensures that members who choose to leave the fund before their normal retirement date do so on terms that properly reflect the underlying value of their policy.

Members are also eligible to receive a terminal bonus at maturity. The amount of terminal bonus may be lower, or nil, on transfer or encashment before maturity.

The Trustees are aware that, in February 2018, the DWP issued guidance for trustees of occupational schemes regarding the disclosure of costs and charges information for scheme years ending after 5 April 2019. The Trustees have taken full account of these requirements when preparing this year's Chair's statement.

In addition to the above member-borne costs and charges, the sponsoring employer meets the cost of ongoing governance and administration services. In assessing value-for-money, the Trustees have only considered the costs and charges met by members.

Fellowes Limited Retirement Benefits Scheme Chair's Statement (continued)

Cumulative costs and charges

The Trustee has conducted an analysis of the cumulative impact of the member-borne costs and charges within the With Profits Fund for typical members of the Scheme, which is set out in Appendix A.

Core financial transactions

The Trustees receive and review reports from the Scheme's administrators on a 6-monthly basis in order to monitor the level of administration services being provided to members.

The processing of core financial transactions is monitored by the administrators, who have implemented internal control procedures to help ensure that such transactions are processed promptly and accurately. These activities include processes to ensure the accuracy of benefit calculations and settlements and the prompt resolution of any inconsistencies identified.

As the DC Section is closed with no ongoing contributions, the volume of transactions is low. There have been no transfers or switches in or out the DC Section. Switching funds is not made available to members as there is only one fund available to them.

The Trustees are satisfied that during the period of this statement, any transactions and payments made were completed within the service level agreement.

Value for Members

The Trustees commissioned First Actuarial again this year to review the DC Section in line with the new Pension Regulator requirements to assess member value and whether better value was available elsewhere.

Looking at costs and charges, the DC Section performs worse than the comparator schemes with assumed charges significantly higher than the other DC providers.

The net investment return of the With Profits fund continues to show underperformance compared to its comparators over the short to medium term. Whilst acknowledging that the With Profits fund meets its objective, the impact of smoothing on returns is significant when making the comparison with other DC provider default funds. This cost has impacted member returns. However, it does provide albeit lower stable growth to cover GMPs. It does not provide de-risking glidepaths in volatile markets.

Finally, there are several areas of improvement to meet the regulators minimum standards. These points are the same as those highlighted in the previous 2021/22 assessment.

Overall, our assessment concludes that the DC Section does not meet the full requirements laid down by The Pensions Regulator.

To help address this, we recommend the Trustees:

- Actively consider how communications to members can be improved, and work to put these into practice over the next scheme year.
- Carry out a review of First Actuarial's internal processes and cyber security controls and add an annual review to the Scheme's business plan.
- Carry out a review of DC section data quality before the next value for member assessment (and annually thereafter)

Fellowes Limited Retirement Benefits Scheme Chair's Statement (continued)

It was noted in last year's assessment the constraints that surround the changes that can be made regarding the investment choice to cover the DC Section's GMP underpins to improve returns and reduce charges.

The Prudential have confirmed that they cannot offer a buyout solution to secure the funds, including the GMP element as part of a potential DC Section wind up.

However, it may be possible to discharge the DC liabilities by splitting out DB and DC benefits. A feasibility project could be established to consider this further.

Trustee Knowledge & Understanding

It is important that the Trustees continue to have sufficient knowledge and understanding to fulfil their duties. All new Trustees are expected to undertake training following their appointment, including use of the Pensions Regulator's Trustee Toolkit.

The Trustees are supported by independent professional advisers who ensure that they are kept abreast of the latest legislative, regulatory and market developments that apply to the Scheme. Where further clarification is required about the Scheme's governing documentation, the Trustee takes legal advice from Wrigleys Solicitors LLP. These advisory appointments are also periodically reviewed.

Appropriate and relevant training is usually delivered during Trustee meetings when the Trustees are considering issues that require additional knowledge and understanding. All training received by the Trustees is recorded and the training needs of the Trustees are regularly reviewed by the Trustees and their advisers to identify any relevant gaps in knowledge.


However, no specific DC training took place during the scheme year. A review of recent DC changes will take place to ensure all key areas are covered and understood.

Taking into account the existing level of knowledge and level of professional advice available to the Trustees, it is my opinion that the Trustees are still able to fulfil their role to the required standard.

How to contact the Trustees

If you have any further queries regarding the Scheme, please contact:

First Actuarial LLP
Second Floor
Mayesbrook House
Lawnswood Business Park
Leeds
LS16 6QY
Tel: 0113 818 7300
Email: leeds.admin@firastactuarial.co.uk



Andrew Laming

Chair of the Trustees of the Fellowes Limited Retirement Benefits Scheme

Date: 31/10/2023

Fellowes Limited Retirement Benefits Scheme Chair's Statement (continued)

Appendix A

The Trustee has taken account of the statutory guidance when preparing these illustrations. The assumptions used to calculate the cumulative pension costs are based on actual scheme information and are as set out below:

With Profits Fund		
Years	Before charges	After all costs and charges
1	£24,201	£23,944
3	£25,904	£25,087
5	£27,728	£26,285
10	£32,867	£29,535
15	£38,959	£33,187
20	£46,180	£37,291
25	£54,739	£41,902
30	£64,884	£47,084
35	£76,911	£52,906
40	£91,166	£59,449

Assumptions:

- 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.
- 2) The starting pot size is assumed to be £23,392.
- 3) Inflation is assumed to be 2.5% each year.
- 4) No further contributions are assumed.
- 5) Values shown are estimates and are not guaranteed.
- 6) The projected growth rate for the With Profits Fund is 3.46% above inflation.