

## UPS Pension Trustee Limited

### Chair's annual statement regarding defined contribution benefits held in the University of Warwick Pension Scheme ("the Scheme")

#### 1. Introduction

- 1.1. This statement has been prepared by UPS Pension Trustee Limited ("the Trustee"), the Trustee of the University of Warwick Pension Scheme ("the Scheme"), and reports on how the Trustee has complied with the defined contribution (DC) governance standards. These standards are designed to help members achieve good outcomes from their pension savings.
- 1.2. This statement covers the Scheme year 1 April 2022 to 31 March 2023 ("the reporting period").
- 1.3. The Trustee will publish this Statement on a publicly accessible website. The web address for the website will be: <https://warwick.ac.uk/pensions/ups>

#### 2. The Scheme's DC arrangements

- 2.1. Over the reporting period, the Scheme's DC arrangements comprised the following:
  - 2.1.1. A Defined Contribution Section ("the DC Section") which is open to future contributions and is used as a qualifying workplace pension scheme for auto-enrolment purposes. The administration and investment management services for the DC Section are provided by Scottish Widows.
  - 2.1.2. A separate AVC arrangement provided by Prudential which holds benefits for Defined Benefit Section ("the DB Section") members.
  - 2.1.3. Over the Scheme year, the Trustee engaged with the University of Warwick (the "University") to carry out a review of the structure of the DC Section. A Working Group has been established, with representatives of the University and the Trustee to carry out this review and, as a result, it is likely that changes will be made to the DC Section in the near future. Further information setting out the impact of any changes will be provided at an appropriate point in the future.

#### 3. The DC Section's default investment arrangement

##### Review of, and recent changes to, the DC Section's default investment arrangement

- 3.1. The Trustee completed its last strategic review of the DC Section's default investment arrangements, the Scottish Widows Passive Interim Lifestyle Strategy ("the Legacy Default Option"), in the scheme year ending March 2021. This review considered Scottish Widows' future planned changes to the Legacy Default Option which would involve moving the vast majority of the DC Section's accrued assets and members into a new default investment option, called the Scottish Widows Balanced Pension Investment Approach (PIA). It also considered the degree to which these changes would be aligned to the needs of DC Section members as well as the Trustee's own investment beliefs. The review concluded that the changes being proposed by Scottish Widows should add value for members over the longer-term.
- 3.2. Whilst these changes had originally been planned for early 2021, Scottish Widows took the decision to delay their implementation in order to refine its approach. Scottish Widows presented its revised proposals to the Trustee in November 2021 and, with support from its professional advisers, the Trustee concluded

that the change in approach did not materially impact the decisions made in 2020 and therefore the decision was made to go ahead.

- 3.3. The Scottish Widows Balanced PIA was launched through the DC Section on 1 April 2022 for new members. Scottish Widows, on behalf of the Trustee, wrote to all existing investors in the Legacy Default Option in March 2022 to advise of the impact of these changes.
  - 3.3.1. For those members invested in the Legacy Default Option with more than 4 years to their Target Retirement Age (TRA), the transfer to the Scottish Widows Balanced PIA was made automatically.
  - 3.3.2. For those members invested in the Legacy Default Option with 4 years or less to their TRA, no change was made unless the member opted in. The decision not to automatically switch members with less than 4 years to TRA, reflected the difference in the types of investment held during this period of membership.
- 3.4. For impacted members, the transfer to the Scottish Widows Balanced PIA took place on 23 May 2022 and was completed by 13 June 2022. Throughout the process the Trustee monitored Scottish Widows' progress and this included regular updates from Scottish Widows as well as monitoring of the transaction costs arising from the change.
- 3.5. As a result of these changes, over the reporting period the DC Section had two default investment arrangements for the purposes of the regulations; the Legacy Default Option; and the Scottish Widows Balanced PIA ("the Default Option").
- 3.6. In line of the review of the DC section highlighted above, the next strategic review of DC Sections Default Options is due to be completed in the scheme year ending March 2024.

#### Design and objective of the DC Section's Default Option

- 3.7. The Default Option is a governed investment solution that is designed and implemented by Scottish Widows. It is a lifestyle investment strategy that invests in a range of multi-asset funds which vary in the amount of risk they will take depending upon how far each member is away from their Target Retirement Age (TRA).
  - 3.7.1. When a member is more than 15 years from TRA, the Balanced Pension Investment Approach Targeting Flexible Access will invest wholly in Pension Portfolio 2.
  - 3.7.2. From 15 years up to 5 years before each member's TRA, the investment solution looks to reduce the level of investment risk by automatically and gradually switching out of Pension Portfolio 2, initially into Pension Portfolio 3 and then into Pension Portfolio 4. At 5 years from TRA it will invest wholly in Pension Portfolio 4.
  - 3.7.3. Over the final 5 years to TRA, the Balanced Pension Investment Approach Targeting Flexible Access will switch a proportion of each member's investments out of Pension Portfolio 4 and into Pension Portfolio 5. At TRA it will target a portfolio that invests 25% in Pension Portfolio 5 and 75% in Pension Portfolio 4.
- 3.8. The objective of the Default is to grow the value of a member's benefits over the longer term whilst providing less volatility (but a potentially lower return) than investing solely in a portfolio of global equities. In the approach to TRA It is designed to limit the extent to which members' benefits are exposed to large fluctuations in value. Up to five years before TRA it targets a portfolio that is designed to be broadly

suitable regardless of how a member takes their benefits but is designed for those members targeting drawdown.

#### Design and objective of the DC Section's Legacy Default Option

- 3.9. Like the Default Option, the Legacy Default Option is a governed investment solution that is designed and implemented by Scottish Widows. It is a lifestyle investment strategy that invests in a range of multi-asset funds which vary in the amount of risk they will take depending upon how far each member is away from their TRA.
  - 3.9.1. When a member is a long way from TRA, the Legacy Default Option will hold investments that are designed to be higher risk (relative to other stages of the strategy) with the objective of providing potentially higher returns.
  - 3.9.2. Over the 42 years prior to a member's TRA the Legacy Default Option will automatically and progressively switch their retirement savings into lower risk investments with the aim of protecting their value relative to the way in which they are expected to be accessed.
- 3.10. The objective of the Legacy Default Option is to grow the value of a member's benefits over the longer term whilst providing less volatility (but a potentially lower return) than investing solely in a portfolio of global equities. It is designed to provide flexibility at each member's TRA by being broadly appropriate regardless of how each member takes their retirement income (e.g. cash, annuity purchase or drawdown).

#### Alternative investment strategies

- 3.11. Alongside the Default Options, the Trustee makes available two further lifestyle investment options which have been designed to allow members to target a specific retirement option. Like the Default Option, these form part of Scottish Widows' range of governed investment solutions and include;
  - 3.11.1. The Balanced PIA Targeting Annuity Purchase: designed for those members who intend to purchase an annuity to provide a regular and secure income for life.
  - 3.11.2. The Balanced PIA Targeting Encashment: designed for those members who intend to take their fund as cash.
- 3.12. Each of these lifestyle options holds the same underlying investment funds as the Balanced Pension Investment Approach Targeting Flexible Access in the early years of membership. However, in the final 5 years to TRA they are tailored to reflect the targeted benefit option.

#### Review of the self-select fund range and available options

- 3.13. Alongside the change to the DC Section Default Option, the Trustee implemented changes to the range of self-select investment options. These changes followed a review completed in September 2021 by the ISC, supported by the Trustee's professional advisers, they carried out a review of the range of self-select investment options provided through the DC Section. The changes included:
  - 3.13.1. The introduction of a new self-select fund focussed on integrating Environmental, Social and Governance (ESG) factors into the investment management process (effective from February 2022).
  - 3.13.2. The closure of three self-select funds to future contributions (effective from May 2022).
  - 3.13.3. The removal of two funds from the self-select range (effective from May 2022). Members and assets invested in these funds were automatically transferred to the Default Option.

- 3.14. The self-select range now consists of 7 individual investment funds from which members are able to self-select.

#### Ongoing Monitoring of the DC Sections range of investment options

- 3.15. The Trustee, together with its professional advisers, monitors the investment options accessed through the DC Section on a quarterly basis. This monitoring looks at the performance of the funds, to ensure that they are consistent with the stated aims and objectives, as well as any developments or changes at the fund manager. The Trustee is comfortable that the funds used by the Default Option have performed in line with their stated aims and objectives over the reporting period year.

#### Further information on investments

- 3.16. Information on the range of investment options provided through the DC Section is available in the Statement of Investment Principles (SIP) which was reviewed and updated in the reporting period (June 2022). This is appended to this Chair's Statement and published online alongside. For the purposes of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 the SIP sets out further details around the Trustee's investment objectives, as well as the default investment strategy.

## 4. Core financial transactions

- 4.1. The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:
- 4.1.1. The investment of contributions.
  - 4.1.2. Transfers into and out of the DC Section.
  - 4.1.3. Investment switches.
  - 4.1.4. Payments out of the DC Section in respect of members.

#### DC Section administration

- 4.2. To ensure the accuracy and timeliness of all DC Section core financial transactions, the Trustee has established robust reporting and monitoring processes detailed below:
- 4.2.1. The day-to-day monitoring of administration standards is undertaken by the University's "in-house" pensions team who scrutinise the performance of all service providers to the DC Section. The Pensions Administration Manager reports back to the Trustee on anecdotal experience as part of the quarterly Trustee meetings and any immediate concerns are escalated to the Trustee as appropriate.
  - 4.2.2. Service Level Agreements (SLAs) have been agreed as part of the contract between the Trustee and Scottish Widows. These SLAs set out the agreed maximum timescales for each task to be completed and also the percentage of tasks expected to be completed within these timescales. The agreed SLAs for each of the individual core financial transactions identified in 4.1 above are as follows:

Core financial transaction	SLA
Investment of contributions	24 hours from date of receipt
Transfer into the DC Section	Act on instruction to buy units by end of the following Business Day
Transfer out of the DC Section	Act on instruction to sell units within 2 Business Days
Investment switches	Payment within 3 business days
Investment switches	Act on instruction by end of the following Business Day
Payments out of the Plan	Act on instruction within 2 Business Days

4.2.3. Scottish Widows provides the Trustee with quarterly administration reports that document its performance against the agreed SLAs. The Trustee considers these reports in detail as a regular item at its quarterly meetings. Scottish Widows reports core financial transactions under 'Time Critical Processes' and its performance over the reporting period is outlined in the table below:

SLA area	Performance target	Performance in period*
Time Critical Processes	100%	87.25%
Manual Administration	95%	91.75%
Call Handling	97%	92.25%

*\*based on average of monthly SLA performance over the reporting period as opposed to the 'absolute' annual performance.*

4.2.4. With effect from July 2019 Scottish Widows have also reported on 'Manual Financial Transactions Accuracy'. The target for this is 100%. Since it has been included in reporting, the SLA for 'Manual Financial Transactions Accuracy' has been 100%.

4.2.5. If there are instances where there is a delay for Time Critical Processes, Scottish Widows will automatically apply a financial detriment calculation to ensure members are not financially disadvantaged because of delays caused by the provider and will apply additional units to rectify this.

4.3. Administration is captured as part of the Scheme's risk register and any DC Section specific risks are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions.

4.4. Additional measures that help to monitor the accuracy of core financial transactions are the University's annual checks on data quality. The processes adopted by the administrator to help meet the SLA included daily monitoring of bank accounts, dedicated contribution processing team, and two individuals checking all investment and banking transactions.

4.5. There were no significant issues reported to or identified by the Trustee in connection with either the promptness or accuracy of core financial transactions processed during the period covered by this statement. As is mentioned above, there was some underperformance against SLAs, although Scottish Widows have confirmed that they have shown some improvement with Time Critical Processes (and continue to work through their backlog of outstanding queries). Scottish Widows have confirmed they have increased recruitment, assessed their training and processes, and made changes to improve



efficiencies in customer contact with the aim of further improving their SLA performance. The Trustee will continue to monitor SLA performance.

#### AVC administration

- 4.6. The Trustee has delegated the administrative oversight of the separate AVC arrangement held with Prudential to Barnett Waddingham as the administrator of the Defined Benefit Section ("the DB Section") of the Plan.
- 4.7. Barnett Waddingham advise the secretary to the Trustee of any specific issues that arise relating to the administration of the AVC policies and performance is reported to the Trustee as part of the quarterly meetings.
- 4.8. During the previous reporting period the Trustee noted that some members of the Scheme had experienced delays in relation to queries raised with Prudential. Whilst there has been an improvement this reporting period regarding their core financial transaction timescales with disinvestment of funds being paid out in a more timely manner, there does however continue to be delays. For example, in producing annuity quotations (although this is not a common member request) and despite regular chasers the timescales given by Prudential have not been kept.
- 4.9. The Trustee and its professional advisers believe this to be as a result of the wider challenges that Prudential has faced connected to moving between administration platforms and lack of resourcing for staffing levels. Whilst there is little interaction with Prudential for the members (as only one fund is available) and members mostly deal with Prudential at retirement (via Barnett Waddingham as Scheme administrators), the Trustee will continue to monitor to ensure it does not have a material negative impact on members (e.g. delays paying benefits).

#### Trustee's view of core financial transactions

- 4.10. Taking the above into consideration, the Trustee is confident that all core financial transactions over the reporting period for Scottish Widows and Prudential have been processed promptly and accurately. Whilst there were some minor issues in relation to Time Critical processes, this has been investigated and no members were subject to any detrimental impact. The Trustee notes that there were no issues relating to core financial transactions over the reporting period.

## 5. Charges and transaction costs

- 5.1. Charges for the administration, communication and investment services provided to the Scheme's DC arrangements are structured on a 'bundled' basis and consist of the following:
  - 5.1.1. **Charges:** these are collected by deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. They are referred to as a Total Expense Ratio (TER) and include the Annual Management Charge (AMC) and the Fund Charge (FC) incurred over the period.
  - 5.1.2. **Transaction cost:** 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.

5.1.3. Members pay both charges and transaction costs within the Scheme and there are no other costs borne by members.

#### DC Section charges and transaction costs

5.2. The following table provides details of the costs and charges applied to each of the investment options provided through the DC Section over the period 1 April 2022 to 31 March 2023. This data has been sourced from Scottish Widows in line with statutory guidance, and there is no missing data:

Investment option	Fund Charge (FC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs [1]
The Default Option and range of PIAs – underlying funds				
Scottish Widows Cash CS7	0.400%	0.100%	0.500%	0.020%
Scottish Widows Pension Portfolio Five CS7	0.400%	0.100%	0.500%	0.050%
Scottish Widows Pension Portfolio Four CS7	0.400%	0.100%	0.500%	0.070%
Scottish Widows Pension Portfolio Three CS7	0.400%	0.100%	0.500%	0.040%
Scottish Widows Pension Portfolio Two CS7	0.400%	0.100%	0.500%	0.050%
Scottish Widows Pension Protector CS7	0.400%	0.100%	0.500%	0.020%
SW Passive: Interim Lifestyle – underlying funds				
SW Money Market CS1	0.440%	0.150%	0.590%	0.02%
SW Passive Annuity Purchase* CS1	0.410%	0.085%	0.495%	0.01%
SW Passive Multi-Asset II* CS1	0.420%	0.103%	0.523%	0.10%
SW Passive Multi-Asset III CS1	0.420%	0.106%	0.526%	0.12%
SW Passive Multi-Asset IV* CS1	0.410%	0.105%	0.515%	0.12%
SW Passive Multi-Asset V CS1	0.410%	0.095%	0.505%	0.03%
Self-Select Fund Range*				
SW LGIM Future World Global Equity Index CS1	0.410%	0.175%	0.585%	0.030%
UPS Equity Growth	0.410%	0.085%	0.495%	0.02%

Investment option	Fund Charge (FC)	Annual Management Charge (AMC)	Total Expense Ratio (TER)	Transaction Costs [1]
UPS Money Market	0.360%	0.140%	0.500%	0.02%
UPS Pre-Retirement	0.410%	0.089%	0.499%	-0.01%

Notes to the table:

Funds denoted with a \* are also part of the Self Select Fund Range

In certain circumstances the methodology used for calculating transaction costs (known as slippage) can lead to negative costs being reported. This can be, for example, where other market activity pushes the price of the asset being traded down, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

For members investing in the Default Option and the SW Passive: Interim Lifestyle the costs and charges that apply will depend upon how far each member is from their TRA.

#### AVC arrangement costs and charges – Prudential

- 5.3. Scheme members that hold AVC benefits with Prudential are invested exclusively in the Prudential With Profits Fund. Details of the charges and transaction costs quoted by Prudential for the With Profits Fund are provided in the table below:

Fund name	TER	Transaction costs	Effective date
Prudential With Profits Fund	Prudential does not state an explicit TER for its With Profits Fund as charges are deducted before bonuses are applied to members' benefits, however at the last review this was set to be 1%.	0.20%	31/12/2022

#### Impact of costs and charges

- 5.4. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee (with support from Scottish Widows) has produced illustrations, and these are set out in Appendix 1. The Trustee has not included illustrations for the Prudential With Profits Fund as the holdings are not material relative to the DC Section. The estimated charges are relatively high for this fund, but the Trustee notes that it offers guarantees that members may value.
- 5.5. The Trustee also investigated whether Market Value Reductions (MVRs) would apply on transfers out of the Prudential With Profits Fund (they apply only to 'guaranteed' elements of policy values and would not apply on death or normal retirement). Prudential confirmed that MVRs may apply if benefits taken at any time other than death or TRA and that members will be advised if this applies to their policy when they request a transfer-out or wish to access benefits early. However, an MVR will only apply if the value of the assets underlying an individual plan is less than the value of the plan including terminal bonuses. In practice this suggests MVRs would not apply to the AVC funds based on bonus records, but the amount of bonuses that apply to transfer values may be less than they were previously. The terminal bonus element of the fund can reduce with market conditions and as such the value of the With Profits Fund holdings is likely to represent market value.



5.6. The AVC arrangement only offers members access to the With Profits fund and so there are no alternative funds for members to access. Whilst the growth of the fund overall in recent years has not been substantial, the Trustee notes that the majority of AVC members are starting to approach retirement and alternative funds targeting this stage of investment timeframe would have fallen in value in the same period. Therefore even though the charges are relatively high and the fund's operation process opaque it is unlikely that a better option for this demographic could be found. Therefore, the Trustee will continue to monitor the situation.

## 6. Disclosure of net investment returns

6.1. From 1 October 2021, trustees of all relevant pension schemes, are required to calculate and state the annualised return, net of transaction costs and charges, of all of the investment options members were able to select, and in which members' assets were invested, during the reporting period.

6.2. Statutory guidance has been followed and recommends that trustees disclose net investment returns covering at least a five-year period. For the arrangements where the investment returns vary with age, such as for the Default Option, the investment returns are shown over 1 year, and 5 years for a member aged 25, 45 and 55 at the start of the period.

6.3. The following tables provide net investment return figures for the DC Section's investment options. The data has been sourced by Scottish Widows and the returns have been produced in line with the October 2021 statutory guidance entitled "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".

6.4.

### Default Option\*

Age at start of investment period	Annualised returns to 31 March 2023	
	1yr net return	5yr net return (p.a.)
25	-6.05%	5.09%
45	-6.05%	5.09%
55	-6.27%	4.07%

\*Please note that as all the PIA's (the Default Option, the Balanced Pension Investment Approach Targeting Annuity Purchase and the Balanced Pension Investment Approach Targeting Encashment lifestyle strategies) have the same underlying funds and investment strategy, the performance will be identical up to 5 years prior to TRA and as such, the returns for all three strategies will be the same.

### Passive Interim Lifestyle Strategy

Age at start of investment period	Annualised returns to 31 March 2023	
	1yr net return	5yr net return (p.a.)
25	-2.99%	8.30%

45	-4.08%	6.32%
55	-5.69%	4.54%

## Self-Select

Fund name	Annualised returns to 31 March 2023	
	1yr net return	5yr net return (p.a.)
Scottish Widows Cash CS7	1.70%	0.29%
Scottish Widows Pension Portfolio Five CS7	1.59%	0.50%
Scottish Widows Pension Portfolio Four CS7	-7.14%	2.17%
Scottish Widows Pension Portfolio Three CS7	-6.27%	4.07%
Scottish Widows Pension Portfolio Two CS7	-6.05%	5.09%
Scottish Widows Pension Protector CS7	-24.11%	-4.40%
SW Money Market CS1	1.76%	0.20%
SW Passive Annuity Purchase CS1	-20.98%	-3.91%
SW Passive Multi-Asset II CS1	-9.32%	2.53%
SW Passive Multi-Asset III CS1	-5.69%	4.54%
SW Passive Multi-Asset IV CS1	-4.08	6.32%
SW Passive Multi-Asset V CS1	-2.56%	9.08%
SW LGIM Future World Global Equity Index CS1	-4.07%	n/a
UPS Equity Growth	-3.21%	9.45%
UPS Money Market	1.84%	0.34%
UPS Pre-Retirement	-25.31%	-4.89%

## 7. Value for members

- 7.1. The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 7.2. Analysis was undertaken by the Trustee's professional advisers, Barnett Waddingham LLP, and the findings set out in a report. The Trustee considered this analysis and confirmed its assessment of value for members, effective as at 31 March 2023 and this is set out below.
- 7.3. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.
- 7.4. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 7.5. Other services paid for by the University of Warwick were excluded but nevertheless deliver value to members, e.g. the services of professional advisers in relation to the defined contribution sections and the operation of the Trustee board, with a duty to act in the best interest of members.

### DC Section

- 7.6. In relation to the DC Section, the member-borne charges and transaction costs relate to:
  - 7.6.1. investment services
  - 7.6.2. administration services
  - 7.6.3. communication services
- 7.7. The assessment considered:
  - 7.7.1. in relation to investment services:
    - 7.7.1.1. the investment strategy, e.g. the design of the default and range of alternative options
    - 7.7.1.2. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy
    - 7.7.1.3. the investment governance arrangements
  - 7.7.2. in relation to administration services:
    - 7.7.2.1. the general administration arrangements
    - 7.7.2.2. arrangements in relation to financial transactions
    - 7.7.2.3. data and record keeping
  - 7.7.3. in relation to communication services:
    - 7.7.3.1. communication strategy
    - 7.7.3.2. pre-retirement communications
    - 7.7.3.3. at/post retirement communications

- 7.8. The assessment concluded that the DC Section continues to provide **excellent value** for members and that there are no areas in which the DC Section's arrangements detract value. The Trustee continues to monitor the administration performance although they note the measures put in place by Scottish Widows to improve SLA performance.
- 7.9. In reaching the conclusion the Trustee recognised the robust governance processes applied to the DC Section, the range and overall quality of administration services and engagement tools provided to members.

#### AVC benefits

- 7.10. In relation to the AVC arrangement with Prudential, the member-borne charges and transaction costs relate to:
- 7.10.1. investment services
  - 7.10.2. administration services
  - 7.10.3. communication services
- 7.11. The assessment considered the broad value for members of these services, taking a proportionate approach that reflects the relatively low value of the AVC pension savings concerned.
- 7.12. The Trustee concluded that the AVC arrangement offers **reasonable value** in relation to the charges and transaction costs borne by members.
- 7.13. In reaching this conclusion, the Trustee recognised:
- 7.13.1. Members investing in the arrangement can use their benefits to fund their tax-free cash entitlements through the defined benefit (DB) section of the Scheme.
  - 7.13.2. The charges are broadly aligned with similar types of arrangements offered elsewhere.
  - 7.13.3. Barnett Waddingham provides oversight of the benefits.

## 8. Trustee knowledge and understanding

- 8.1. Over the reporting period the Trustee comprised seven Trustee Directors, of whom one is the Chair. Three of the Trustee Directors are member-nominated, and four are employer-nominated, meeting statutory requirements for the composition of trustee boards.
- 8.2. The Trustee delegates certain activities to an Investment Sub-Committee (ISC). The ISC is responsible for assisting the Trustee with developing an appropriate investment strategy for the DC Section, the ongoing monitoring of the investment strategy and the activity and performance of Scottish Widows.

#### Trustee knowledge and understanding requirements

- 8.3. Trustee Directors are required to be conversant with their schemes' 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.

#### Approach

- 8.4. The Trustee Directors aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the SIP, 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 reporting period and access to professional advice.
- 8.5. The Trustee Directors aim to achieve and maintain a 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.
- 8.6. All Trustee Directors are asked to complete a formal training programme both following appointment and to review their training needs on an ongoing basis to ensure that they have the necessary skills and knowledge required to effectively discharge their duties. No new trustees were appointed over the scheme year.
- 8.7. Trustee training is considered at Trustee meetings and Trustee Directors are asked to provide feedback and suggest topics for future training sessions which allows all Trustee Directors to identify and address any gaps in knowledge. Training is delivered by the Trustee's professional advisers and external training is sought on topics relevant to the Trustee Directors' duties.
- 8.8. The Trustee Directors 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 Trustee Directors on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Plan's documents and attending Trustee meetings.

#### Activities over the reporting period

- 8.9. Over the Scheme year, the Trustee engaged with the University of Warwick to carry out a review of the structure of the DC Section. A Working Group has been established, with representatives of the University and the Trustee to carry out this review and, as a result, it is likely that changes will be made in the near future. Further information setting out the impact of any changes will be provided at an appropriate point in the future.
- 8.10. Over the reporting period the Trustee took professional advice in the following areas:
- 8.10.1. The feasibility of discharging the Scheme's assets to a master trust arrangement
  - 8.10.2. Undertaking the annual value for member assessment
  - 8.10.3. Disclosure of costs, charges and investments
- 8.11. Over the reporting period, the Trustee reviewed the following Scheme documents:
- 8.11.1. The 2022 annual governance statement
  - 8.11.2. The Annual Report & Accounts
  - 8.11.3. The Risk Register
  - 8.11.4. Investment adviser objectives, including a review of performance against those objectives

8.11.5. The Implementation Statement

8.11.6. The Statement of Investment Principles

8.12. Over the reporting period, the Trustee received training on the following topics at Trustee meetings

8.12.1. Training on DC Strategy and Master Trusts (April 2022)

8.12.2. Training on default investment arrangement compositions, CPI benchmarks and "Cost of Living" implications for pensions (November 2022)

8.12.3. Wider regulatory environment, capturing recent and upcoming legislative changes (March 2023)


### Assessment

8.13. The Trustee Directors 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:

8.13.1. The Trustee Directors are able to challenge and question advisers, service providers and other parties effectively

8.13.2. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties

8.13.3. The Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements

 .....

James Hunt, for and on behalf of the Trustee of the University of Warwick Pension Scheme  
Chair of the Trustee

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Date



## Appendix 1: Illustrations on the impact of cost and charges

A1.1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, Scottish Widows, on behalf of the Trustee, has produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative cross-sections of the membership and investment options.

### Parameters used for the illustrations

A1.2. To determine the parameters used in these illustrations, the Trustee, with support from the DC Section provider, Scottish Widows, has analysed the membership of the DC Section and ensured that the illustrations take into account the following:

A1.2.1. A representative starting pot size of £2,000.

A1.2.2. A representative range of real term investment returns (gross of costs and charges), including the lowest, the highest and the most popular (by number of members).

A1.2.3. A representative range of costs and charges, including the lowest and the highest.

A1.2.4. A representative period of membership, covering the approximate duration that the youngest member would take to reach target retirement age.

A1.3. Future contributions are included within these illustrations as the DC Section remains open to contributions. For those members who are no longer active, illustrations have been produced which assume no future contributions will be paid.

### Guidance to the illustrations

The following notes on the illustrations should also be read;

1. Projected pot sizes are shown in today's terms and do not need to be reduced further for the effects of future inflation. Inflation is assumed to be 2.5%.
2. The retirement age is assumed to be age 65.
3. The starting pot size is assumed to be £2,000.
4. For active members, gross contributions are assumed to be £175 per month from the start of the projection to retirement and are assumed to increase in line with inflation. For deferred members contributions are assumed to be nil.
5. Values shown are estimates and not guaranteed.
6. The charges used are those shown earlier in this Chair's Statement. Scottish Widows were unable to use an average over the last 5 years.
7. The projected growth rates, gross of costs and charges, for each fund or arrangement have been determined by Scottish Widows and are in line with the 2022 Statutory Money Purchase Illustrations (SMPs). These are outlined below:

### Self-Select Funds

Fund	Projected Growth Rate (Average)
SW Passive Annuity Purchase CS1:	1.4% above inflation
UPS Equity Growth:	2.4% above inflation
Scottish Widows Cash CS7:	0.4% above inflation
SW Money Market CS1:	0.4% above inflation

### Default Option

Years to retirement	Projected Growth Rate (Average) for active illustration	Projected Growth Rate (Average) for deferred illustration
1	1.40% above inflation	1.40% above inflation
3	1.40% above inflation	1.40% above inflation
5	1.40% above inflation	1.40% above inflation
10	1.50% above inflation	1.50% above inflation
15	1.60% above inflation	1.70% above inflation
20	1.70% above inflation	1.90% above inflation
25	1.80% above inflation	2.00% above inflation
30	1.90% above inflation	2.10% above inflation
35	2.00% above inflation	2.10% above inflation
49	2.10% above inflation	2.20% above inflation

## Default Option – Active members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for an active member investing in the strategy to age 65 starting at different ages. The illustrations assume a £175 per month contribution and a starting pot size of £2,000.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 16	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	4,110	4,090	4,120	4,110	4,140	4,120	4,140	4,120	4,140	4,120
3	8,430	8,350	8,480	8,400	8,590	8,500	8,590	8,500	8,590	8,500
5	12,800	12,600	12,900	12,700	13,200	13,000	13,200	13,000	13,200	13,000
10			24,600	23,900	25,600	24,900	25,900	25,100	25,900	25,100
15					38,700	36,900	40,200	38,400	40,200	38,400
20					52,300	49,200	55,700	52,400	56,400	53,000
25							71,400	66,100	74,600	69,000
30							87,600	79,700	95,200	86,600
35									118,000	105,000
49									183,000	155,000

Note on how to read this table: If an Active member aged 35 had £2,000 invested in this strategy, when they came to retire in 30 years, the fund could grow to £87,600 if no charges are applied but to £79,700 with charges applied.

## Default Option – Deferred members

This has been selected as it is the most popular investment option selected through the DC Section. The illustrations show the impact of cost and charges for a deferred member investing in the strategy to age 65 starting at different ages. The illustrations assume a starting pot size of £2,000 and that no further contributions are made.

Years	Age Now 60		Age Now 55		Age Now 45		Age Now 35		Age Now 16	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,020	2,010	2,030	2,020	2,040	2,030	2,040	2,030	2,040	2,030
3	2,080	2,050	2,110	2,070	2,140	2,110	2,140	2,110	2,140	2,110
5	2,150	2,090	2,170	2,110	2,250	2,190	2,250	2,190	2,250	2,190
10			2,340	2,210	2,510	2,370	2,540	2,400	2,540	2,400
15					2,730	2,510	2,870	2,640	2,870	2,640
20					2,940	2,630	3,190	2,860	3,230	2,890
25							3,480	3,030	3,650	3,180
30							3,740	3,160	4,120	3,480
35									4,640	3,820
49									5,910	4,500

Note on how to read this table: If a Deferred member aged 35 had £2,000 invested in this strategy, when they came to retire in 30 years, the fund could grow to £3,740 if no charges are applied but to £3,160 with charges applied.

## Self-select funds – Active members

The illustrations shown below are for a representative selection of the funds that members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a £175 per month contribution and a starting pot size of £2,000.

Years	SW Passive Annuity Purchase CS1		UPS Equity Growth		Scottish Widows Cash CS7		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	4,110	4,100	4,140	4,120	4,080	4,070	4,080	4,060
3	8,430	8,360	8,590	8,500	8,290	8,210	8,290	8,190
5	12,800	12,700	13,200	13,000	12,500	12,300	12,500	12,300
10	24,600	23,900	25,900	25,200	23,300	22,600	23,300	22,500
15	37,100	35,700	40,200	38,600	34,300	33,000	34,300	32,700
20	50,700	48,000	56,400	53,300	45,700	43,300	45,700	42,900
25	65,300	61,000	74,600	69,400	57,300	53,500	57,300	52,900
30	80,900	74,600	95,200	87,200	69,200	63,800	69,200	62,900
35	97,800	88,800	118,000	106,000	81,400	74,100	81,400	72,900

Note on how to read this table: If an Active member had £2,000 invested in the UPS Equity Growth Fund, over the next 30 years, the fund could grow to £95,200 if no charges are applied but to £87,200 with charges applied.

## Self-select funds – Deferred members

The illustrations shown below are for a representative selection of the funds that members may invest in through the DC Section. They were selected to reflect the range of projected returns and charges. The illustrations assume a starting pot size of £2,000 and that no further contributions are made.

Years	SW Passive Annuity Purchase CS1		UPS Equity Growth		Scottish Widows Cash CS7		SW Money Market CS1	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	2,020	2,010	2,040	2,030	2,000	1,990	2,000	1,990
3	2,080	2,050	2,140	2,110	2,020	1,990	2,020	1,990
5	2,150	2,090	2,250	2,190	2,040	1,990	2,040	1,980
10	2,310	2,200	2,540	2,410	2,090	1,990	2,090	1,970
15	2,480	2,300	2,870	2,660	2,150	1,990	2,150	1,960
20	2,670	2,420	3,230	2,920	2,200	1,980	2,200	1,950
25	2,870	2,530	3,650	3,210	2,250	1,980	2,250	1,940
30	3,090	2,660	4,120	3,530	2,310	1,980	2,310	1,920
35	3,320	2,790	4,640	3,890	2,370	1,970	2,370	1,910

Note on how to read this table: If a Deferred member had £2,000 invested in the UPS Equity Fund, over the next 30 years, the fund could grow to £4,120 if no charges are applied but to £3,530 with charges applied.