

# Standex UK Retirement Plan ('the Plan')

## Annual Statement Regarding Governance

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by The Occupational Pension Schemes (Charges and Governance) Regulations 2015 (together the 'Administration Regulations'), the Standex Pension Trustees Limited (the 'Trustee') is required to prepare this Statement on governance for inclusion in the Trustee's annual report. This statement of governance relates to the Plan's defined contribution (DC) (money purchase) benefits. These benefits fall into two categories, namely:

- The Plan's DC Section where all benefits are DC.
- Additional Voluntary Contributions in the Plan's Defined Benefit (DB) Section.

Reference to "the Plan" and "the Plan's" throughout this statement relate to the DC Section. This document sets out the Statement covering the period 1 June 2019 to 31 May 2020.

This statement covers four key areas:

- The investment strategy relating to the Plan's default option;
- The processing of the Plan's financial transactions;
- Charges and transaction costs within the Plan, including value for money; and
- The Trustee's compliance with the statutory knowledge and understanding requirements.

### The default investment option

The Trustee Directors undertake a holistic and strategic review of the Plan's default investment arrangements triennially; ad hoc reviews of strategy and/or investment policy are also undertaken in the event of significant legislative, market or member demographic changes.

The default investment option was considered as part of an investment strategy review in 2017. Considering the Plan's membership and investments along with other options available under the current provider, the Trustee Directors decided to change the default investment option. Members were due to receive a communication detailing these changes in early 2019. However, there were further changes announced affecting the services and governance of the investment provider, Aegon, that prompted the Trustee to re-evaluate and consider whether a more comprehensive review of the Plan's DC section was warranted. After additional due consideration at the May 2019 Trustee meeting, including verifying the continued validity of the investment strategy advice given as part of the investment strategy review in 2017, the Trustee decided to continue with the change in default. The implementation was revised and was completed on 27 August 2019.

The current default investment option for the Plan is a Lifestyle strategy which is an investment strategy designed to provide exposure to growth assets in the period up to 6 years before retirement and then a phased transition of assets to less volatile investments, designed to protect the value of members' funds in the period up to retirement. The default investment strategy is:

Aegon Growth Tracker (Flexible Target) Lifestyle strategy

The lifestyle strategy aims to grow savings over the long term by investing mainly in global equities and (c. 25%) in UK bonds during the initial phase of the investments. It is designed to track the markets it invests in, providing similar returns to those markets.

From six years before the members' target retirement year, the lifestyle strategy progressively moves the assets into less risky investments. From two years away from retirement the strategy will move part of the savings into cash, where c.25% of the savings will be in cash by the time the member reaches their target retirement date, which caters for members who wish to utilise their tax-free cash entitlement.

In accordance with the Administration Regulations, the Trustee Directors have included the Statement of Investment Principles (the 'SIP') dated 30 September 2020 and which is prepared for the Plan under Section 35 of the Pensions Act 1995 (the '1995 Act') and regulation 2 / regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

The Trustee Directors and their professional advisers, Mercer Limited ('Mercer'), review how the funds within the Plan's default investment arrangement and wider fund range have performed at each Trustee meeting.

### **Aviva Additional Voluntary Contributions (AVCs) – PG37911**

The AVCs for this plan relate to the DB Section members and these are invested in a policy held with Aviva. The Aviva AVCs option was closed to increases in contributions from existing members from September 2005, but members who were already investing in a fund were permitted to continue to make existing investments at the same monetary contribution level. There were no contributions in the period 1 June 2019 to 31 May 2020. DB members who wish to pay AVCs can now only do so via the DC Section of the Plan.

#### Aviva Charges and Policy Fee

Policy Fee	N/A
Bid/Offer Spread	5%
Annual Management Charge (AMC)	0.875% p.a. for unit linked funds. There is no AMC for with profits funds; however, a similar charge is allowed for when bonus rates are declared
Charges covered by Maximum 1% Stakeholder Charge	No
Charges to switch funds	N/A

The Trustee does not operate default investment arrangements within the meaning of Pensions Act 2008 in relation to AVC policies. For this reason, the Trustee believes that the disclosures required in the Regulations with regard to default investment arrangements are not applicable to the plan's AVCs. For the same reason, the Trustee SIP does not contain wording relating to default investment arrangements for the plan's AVCs.

### **Requirements for processing financial transactions**

As required by the Administration Regulations, the Trustee must secure that core financial transactions are processed promptly and accurately.

This includes:

- Investment of contributions paid to the Plan;
- Transfer of members' assets into and out of the Plan;

- Transfers of members' assets between different investment options available in the Plan; and
- Payments from the Plan to, or in respect of, members.

The Trustee Directors have delegated the administration of Plan member records and investment platform services to Aegon, for the period under review.

The Trustee Directors operate a system of internal controls aimed at monitoring the Plan's administration and management and monitoring the extent to which the Plan's core financial transactions are processed promptly and accurately. However, following a change to the provider's product the Trustee Directors have tried to confirm administrative responsibilities and controls with Aegon. The provider has been unwilling to engage with the Trustee Directors on this matter and as such they have been reviewing other options for the Plan's administration and investment. The Trustee Directors hope to have resolved this by mid-year 2021. In the interim, the Trustee Directors are dealing directly with any members wishing to transact with Aegon to ensure they receive the service they require.

The Trustee Directors were recently able to confirm the Service Level Agreement (SLA) currently in place and performance over the year to 31 May 2020. Service Levels were met in 96.5% of cases with only five of the twenty services below 100%. The lowest performance against service level was the result of one member receiving online access outside of SLA. The Trustee is pleased that, in the last Plan year, there have been no material administration service issues which need to be reported here. They continue to press Aegon for further administrative information.

### **Charges and transactions costs**

As required by the Administration Regulations, the Trustee is required to report on the charges and transaction costs for the investments used in the default investment option and its assessment of the extent to which the charges and costs represent good value for members.

#### Default investment strategy

The Plan's default investment strategy is the Aegon Growth Tracker (Flexible Target) Lifestyle, and the cost, known as the Total Expense Ratio ('TER'), is 0.52% p.a. at all stages of this lifestyle arrangement.

#### Plan investment options and costs

<b>Default lifestyle strategy</b>	<b>Current TER</b>	<b>Additional transaction costs</b>
Aegon Growth Tracker (Flexible Target) Lifestyle	0.52%	0.06%
<b>Legacy lifestyle strategy</b>		
BlackRock Aquila 50/50 Global Equity Index (Lifestyle)	0.51%	-0.01% to 0.01%
<b>Self-Select Fund Range</b>		
BlackRock Aquila 50/50 Global Equity Index	0.51%	0.01%
Schroders Global Emerging Markets	1.46%	0.01%

Baillie Gifford Diversified Growth	1.22%	0.55%
Aegon UK Government Bond*	0.50%	0.04%
Aegon Index-Linked*	0.51%	0.08%
Scottish Equitable Retirement*	0.50%	0.03%
BlackRock Over 15 Years Gilts	0.52%	-0.02%
BlackRock Over 5 Years Index Linked Gilts	0.51%	0.04%
BlackRock Retirement	0.51%	-0.01%
Aegon Cash	0.50%	0.00%

\*These funds are no longer available for members subsequent to the change to the Plan's investment strategy in August 2019

All fees shown above are as at 31 May 2020, and have been sourced from Aegon. The TER includes the fees charged by the underlying manager and the platform charges from Aegon. Note that expenses are a function of the size of the fund and will change over time. The charges on the default funds comply with the charge cap legislation requirements.

### Transaction costs

Members do not incur explicit transaction costs when switching their investments between the investment funds that are available. However, Aegon reserve the right to charge for switching in exceptional circumstances; a member would have 10 switches free in any one policy year and Aegon would then reserve the right to apply charges on a fair usage basis for any subsequent switches above the level of 10 switches.

There are costs incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account by the fund managers when calculating the unit price for each of the funds. The transaction costs shown are calculated on a methodology known as 'slippage cost'. This compares the price of the stocks being traded when a transaction was executed with the price at which the transaction was requested. Market movements during any delay in transacting may be positive or negative and may also outweigh other explicit transaction costs. For this reason, overall transaction costs calculated on the slippage method can be negative as well as positive.

The Trustee Directors have been working with the Plan's provider, Aegon, on obtaining transaction costs from the underlying investment managers. Aegon has provided transaction costs information of all funds in the fund range over the scheme year to 31 May 2020.

### Illustrative impact of costs and charges

Using the charges and transaction cost data provided by each of the providers and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, AEGON have prepared an illustration for the Trustee Directors detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing this example. Please see Appendix A for further information.

## **Value for Money**

The Trustee Directors are committed to ensuring that members receive good value from the Plan. Underpinning this assessment was the Trustees' belief that value is about using the resources at its disposal effectively to help members achieve a good outcome for life after work. In addition, while some measures of value should be scrutinised carefully over the short-term (for example, the performance of the Plan administrator), the Trustees believe that others, such as the suitability and performance of investment funds, span several years.

In conjunction with their professional advisor, they undertook a value for money assessment which covered the following aspects:

- Investment charges for the default investment arrangement and self-select options;
- Net of fees investment performance; and
- Investment fund range and ratings.

The review concluded that the Plan's overall benefits represent reasonable value for money in relation to member borne deductions. The reasons underpinning this conclusion are as follows:

- Charges for the Plan's default investment arrangement are significantly below the charge cap of 0.75% per annum, however the levels of charge are mixed when comparing to similar products. This has been assessed by our advisors as comparing reasonable with those of similar investment funds available elsewhere in the market;
- The funds, where rated, have been assessed as having at least an average prospect of outperformance. BlackRock's passively managed mandates have been assessed as having reasonable tolerance range against benchmark.
- The performance of the Plan's funds over the 3 years and 5 years to 30 June 2019 compares favourably relative to the benchmark set by the Trustee.
- The administration services and products including online tools and member communications are poor.

While the Trustee Directors have concluded that over all the Plan provides reasonable value for members, they do not believe that the current level of member services is acceptable. Following a change to the provider's product the Trustee Directors have tried to confirm administrative responsibilities with Aegon. The provider has been unwilling to engage with the Trustee Directors on this matter and as such they have been reviewing other options for the Plan's administration and investment. The Trustee Directors hope to have resolved this during 2021.

## **Trustee knowledge and understanding**

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

During the year, the Trustee Directors discussed their training needs having regard to the statutory requirements to have knowledge and understanding of pensions law and to be conversant with the Plan's trust deed and rules, SIP and other documents recording the Trustee's policies. The Trustee Directors undertook activities throughout the year that involved Trustee Directors giving consideration to pensions law and the Plan's governing documents. Examples include:

- The Trustee Directors have a robust training programme in place for newly appointed Trustee Directors. For the Plan, upon appointment, a Trustee Director is required to undertake an induction process. This includes a training session with relevant advisers. The training session must be completed ahead of the Trustee's first formal Trustees' meeting.
- At each routine bi-annual meeting, the Trustee Directors have considered a briefing from their professional advisors on forthcoming changes to pension laws and their impact on the Plan.
- Trustee Directors undertake a biennial evaluation of their effectiveness and training requirements, which includes specific consideration of whether any further training is required in respect of many different areas.
- The Trustee Directors are reminded of the conflicts of interest protocol at each routine meeting and discuss any concerns they may have.
- The Trustee Directors consider the Plan's risk register at least annually.
- There have been changes to the SIP that required a review of investment objectives, particularly in respect of ethical, environmental, social and governance factors.
- The Trustees have discussed different pension vehicles and the laws relating to those and investment switches.
- Each Trustee Director has access to their advisor's online portal, which holds copies of all documents for this purpose, including the Trust Deed and Rules and the SIP.
- Trustee Directors maintain a record of key decisions that references the relevant sections of these documents, where applicable.
- The Trustee Board comprises individuals with diverse professional skills and experiences, reflecting the varied nature of the challenges that its governance must address.
- The Trustee Directors maintain a training log that sets out individual and whole-board based training activity.
- The Trustee Directors' professional advisors attend all meetings and are asked to input into the agenda.

I confirm that the above statement has been produced by the Trustee to the best of its knowledge.



Name: \_\_\_\_\_ James Fletcher \_\_\_\_\_  
Chairman of Trustee of the Standex UK Pension Plan

Date: \_\_\_\_\_ 19<sup>th</sup> December 2020 \_\_\_\_\_

**Additional information**

Statement of Investment Principles effective September 2020.

## Appendix A– Illustration of Impact of Fund Charges and Costs on a Member’s Pot Over Time

Provided by AEGON

These aren't personal illustrations, they are based on the assumptions detailed below in the section 'About these illustrations'. The purpose of the example illustrations is to show how fund related costs.

### Cost and Charges Assumptions

- AMC is the annual management charge which is the yearly charge to cover administration costs and to pay the fund manager for managing your funds.
- The additional expenses include management fees and expenses that vary with the day to day costs of running the fund.
- Transaction costs arise when a fund manager buys or sells the underlying assets of a fund.

Fund transactional costs and charges total (%)						
	Mixed	Equity	Fixed Interest	Cash	50/50 Lifestyle	Growth Tracker Flexible Target
AMC	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Additional expenses	0.01%	0.01%	0.01%	0.00%	0.01%	0.02%
Transaction costs	0.35%	0.45%	0.14%	0.00%	0.01%	0.05%

The growth rate for each fund is set out below. These are for illustrative purposes only and not guaranteed. The investment growth achieved may be more or less than this and may vary depending on the type of fund.

Fund	Growth Rate
Mixed	4.75%
Equity	5.75%
Fixed Interest	1.50%
Cash	1.00%
50/50 Lifestyle	3.75%
Growth Tracker Flexible Target	4.00%

### Active Member -Illustrations showing the impact of fund transactional costs and scheme charges on a projected pension fund in today's money (£)

The 'Before charges' column shows the projected pension fund without any transaction costs, charges or rebates being applied.

The 'After all charges' column shows the projected pension fund after transaction costs, charges and rebates that have been applied.

Years	Mixed		Equity		Fixed Interest	
	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	13,027	12,925	13,141	13,026	12,657	12,583
3	18,494	18,114	18,925	18,490	17,141	16,879
5	24,203	23,441	25,082	24,196	21,538	21,037
10	39,609	37,387	42,265	39,588	32,161	30,861
15	56,783	52,279	62,351	56,738	42,275	39,918
20	75,925	68,183	85,829	75,847	51,906	48,268
25	97,263	85,166	113,273	97,138	61,076	55,966
30	121,048	103,302	145,353	120,862	69,807	63,064
35	147,561	122,670	182,851	147,296	78,121	69,608
40	177,114	143,353	226,684	176,750	86,037	75,641
44	203,178	160,905	267,024	202,717	92,096	80,126

Years	Cash		50/50 Lifestyle		Growth Tracker Flexible Target	
	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	12,600	12,542	12,913	12,852	12,942	12,875
3	16,940	16,737	18,070	17,844	18,175	17,928
5	21,153	20,769	23,353	22,906	23,563	23,071
10	31,159	30,179	37,134	35,870	37,736	36,335
15	40,454	38,703	51,776	49,291	52,978	50,199
20	49,088	46,424	67,333	63,184	69,368	64,690
25	57,109	53,419	83,862	77,566	86,993	79,838
30	64,560	59,755	101,424	92,453	105,946	95,671
35	71,481	65,495	120,083	107,865	126,327	112,221
40	77,911	70,695	139,908	123,818	148,244	129,520
44	82,724	74,500	156,656	136,985	166,960	143,922

### About these illustrations

For these illustrations we've assumed:

- the starting age is 23 and the retirement age is 67;
- the contributions will increase by 2.5% each year;
- Projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5%, each year;
- the starting pension fund value in the first year is £10381.79
- each illustration has been produced on the basis this is the only fund invested in and that all transaction costs and scheme charges are deducted from that fund.

## Deferred Member - Illustrations showing the impact of fund transactional costs and scheme charges on a projected pension fund in today's money (£)

The 'Before charges' column shows the projected pension fund without any transaction costs, charges or rebates being applied.

The 'After all charges' column shows the projected pension fund after transaction costs, charges and rebates that have been applied.

Years	Mixed		Equity		Fixed Interest	
	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	5,459	5,412	5,511	5,458	5,289	5,255
3	5,701	5,556	5,866	5,700	5,187	5,087
5	5,954	5,704	6,244	5,952	5,086	4,925
10	6,637	6,091	7,298	6,632	4,843	4,540
15	7,398	6,505	8,531	7,389	4,611	4,186
20	8,246	6,947	9,972	8,233	4,390	3,859
25	9,192	7,418	11,657	9,174	4,180	3,558
30	10,246	7,922	13,626	10,221	3,980	3,280
35	11,421	8,460	15,927	11,389	3,790	3,024
40	12,731	9,034	18,618	12,690	3,609	2,788
45	14,191	9,647	21,762	14,139	3,436	2,571
46	14,503	9,775	22,453	14,449	3,403	2,529

Years	Cash		50/50 Lifestyle		Growth Tracker Flexible Target	
	Before Charges	After all charges	Before Charges	After all charges	Before Charges	After all charges
1	5,263	5,237	5,407	5,379	5,420	5,389
3	5,110	5,034	5,539	5,454	5,579	5,485
5	4,962	4,839	5,675	5,529	5,744	5,583
10	4,609	4,383	6,030	5,724	6,177	5,836
15	4,282	3,971	6,407	5,925	6,642	6,100
20	3,978	3,597	6,807	6,134	7,143	6,376
25	3,695	3,258	7,232	6,350	7,681	6,665
30	3,432	2,952	7,684	6,573	8,259	6,967
35	3,188	2,674	8,164	6,804	8,882	7,282
40	2,962	2,422	8,674	7,044	9,551	7,612
45	2,751	2,194	9,216	7,292	10,271	7,956
46	2,711	2,151	9,329	7,342	10,421	8,027

### About these illustrations

For these illustrations we've assumed:

- the starting age is 21 and the retirement age is 67;
- no future contributions are made.
- projected pension fund values are shown in today's terms, and do not need to be reduced further for inflation. Inflation is assumed to be 2.5%, each year;

- the starting pension fund value in the first year is £5,341.53
- each illustration has been produced on the basis this is the only fund invested in and that all transaction costs and scheme charges are deducted from that fund.