

# **Pensionbuilder**

Pension Schemes Registry  
Registration Number: 102163960

## **Chairman's Statement**

**Year ended 31 March 2023**

## **2. Chairman's Statement**

I would like, once more, to take the opportunity afforded by this statement to remind members of their ability to exercise choice about the way that they draw upon their retirement savings, once they have reached an age where they are permitted to do so. These so-called "pension freedoms" have brought with them the need to make choices that members will not regret in later years.

The Trustee is not required, nor is it able, to advise members on what choices to make. However, I would like to emphasise that there are also choices to be made a number of years before retirement, which will determine the make-up of your investments at the point when you actually retire. Please consider carefully in the earlier years what pre-retirement profile will be appropriate for you, so that you can avoid the risk of investing in a way that does not fit your retirement plans.

I must draw the remaining part of this statement to your attention, as it records the steps taken by the Trustee to comply with the regulations applicable to DC pension arrangements, including the recording of such steps in this Chairman's statement.

### **Statement regarding DC Governance**

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 require the Trustee to include a statement regarding DC governance in the annual report.

### **Default Arrangement**

Members of the Plan who do not make an explicit choice regarding the investment of their funds use the Cash Lifestyle Fund as a default arrangement. The default arrangement for the retail section is the Cash Targeting Lifestyle Fund. Further details of the default arrangement are in the Trustee's Statement of Investment Principles for the Plan as a whole, which is included as an appendix to this Report and Accounts and a brief outline is below.

**Aims and objectives:** The objective of the default arrangement is to target investment growth through investing in equities, automatically moving into cash as the member approaches retirement with a view to the member drawing tax-free cash at retirement.

**Kinds of investments held:** The investment funds comprising the default arrangement are investments of a long-term contract of insurance with BlackRock, which are accessed via an investment-only platform with Aegon. These funds are the MSCI World Index Fund and the Cash Fund.

**Balance between different kinds of investment and ways of measuring and managing risk:** The risk of inflation is mitigated by investing in 100% equities (which would be expected to provide a real rate of return greater than price inflation) until five years before retirement. During the last five years, investments are switched towards a final position of 25% equity and 75% cash. This mix has been designed to limit volatility of returns as the member nears retirement and provide members with an opportunity for positive investment returns at a time of high interest rates and increasing inflation. Due to size of their expected DC pots at retirement, most members are likely to take their full benefits as a cash lump sum. By investing in this manner, the Trustee expects to

## 2. Chairman's Statement (continued)

### *Default Arrangement (continued)*

deliver growth over the member's lifetime within the Scheme without excessive risk taking, with an increased focus in the final five years of reducing volatility.

**Expected return on investments:** The funds are managed passively by BlackRock and returns are expected to be in line with the return of the relevant market index for the underlying asset classes.

**Realisation of investments:** All funds can easily be realised to provide pension benefits on retirement, or earlier transfer to another pension arrangement.

**Social, environmental or ethical considerations:** The Trustee recognises and supports the view that social, ethical and environmental best practice should be encouraged so long as such considerations will benefit performance and/or reduce risk. The Trustee believes that best practice in these areas will enhance the performance of the companies it invests in. However, the Plan does not invest directly in companies as all investments are held via insurance funds. The Trustee does, however, monitor the reports produced by the investment managers in order to ensure that they promote best practice concerning social, ethical and environmental performance.

The default arrangement has the objective of providing investment growth during most of the member's working life by investing in equities and then switching to risk reducing assets as the member approaches retirement.

Over the Scheme year, the Trustee, with the help of its investment adviser, implemented improvements to the investment strategy following a triennial review of the investment strategy, including the default arrangement. The review concluded that the strategy had delivered returns consistent with the aims and objectives listed above, but that there were some improvements that could be made to make it more suitable for members going forward. In June 2022 the Trustee implemented the following changes to the default strategy:

- The Aquila Life 60:40 Global Equity Fund was replaced with the BlackRock MSCI World Index Fund. The reason for this is to have an equity portfolio that better reflects the size of stock markets around the world.
- A higher allocation to equities will be made at the point at which members reach retirement. The lifestyle strategy will be amended, so that members will remain 25% invested in equities at their chosen retirement age. This change had been approved to provide members with an opportunity for positive investment returns at a time of low interest rates and increasing inflation. The point at which members start switching out of equities – five years from retirement – will stay the same.

The replacement of the Aquila 60:40 Global Equity Index Fund with the BlackRock MSCI Index Fund was applied across all three lifestyle strategies (Cash, Annuity and Drawdown targeting) and in the Plan's self-select range.

The Trustee also reviewed the glidepaths for the Annuity and Drawdown targeting lifestyles and were comfortable they remained appropriate.

## **2. Chairman's Statement (continued)**

### *Default Arrangement (continued)*

As part of the review, the Trustee agreed to set the Cash targeting lifestyle as the default arrangement for all members.

Finally, the Trustee implemented the addition of three new self-select funds to the Plan's range: the Aegon BlackRock ESG Strategic Growth Fund, the Aegon HSBC Islamic Global Equity Index Fund and the Aegon BlackRock Emerging Markets Equity Index Fund. The Trustee, based on the advice of its investment adviser, is satisfied with the range of self-select options offered. It is comfortable it covers all relevant asset classes and caters for members with specific investment needs.

All of these changes were communicated to members in April 2022 and were implemented in June 2022.

### **Processing Plan core financial transactions**

The Trustee has a specific duty to secure that core financial transactions (including the investment of contributions, the transfer of member assets into and out of the Plan, transfers between different investments within the Plan and payments to and in respect of members) are processed promptly and accurately.

These transactions are undertaken on the Trustee's behalf by the WHSmith Pensions Department and the Investment platform provider, Aegon. The Trustee has reviewed the processes and controls implemented by Aegon and the WHSmith Pension Department and considers them to be suitably designed to achieve these objectives. The Trustee has also agreed service levels and reporting of performance against those service levels in quarterly administration reports.

The Trustee regularly reviews this information and has concluded that all DC transactions over the year were processed promptly and accurately. This reporting also demonstrated to the Trustee that no administration issues arose over the reporting year.

In light of the above, the Trustee considers that the requirements for processing core financial transactions have been met over the reporting year.

### **Member-borne charges and transaction costs**

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by the members and the extent to which those charges and costs represent good value for money for members.

## 2. Chairman's Statement (continued)

### *Member-borne charges and transaction costs (continued)*

These charges comprise:

- explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the DC investment platform provider and fund managers as part of the Total Expense Ratio (TER). The additional expenses include other costs associated with managing the fund, e.g. audit, legal, custody etc;
- transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

Information on the transaction costs over the reporting year was requested from Aegon, and has been provided for the year ended 31 December 2022.

The Plan attracts a management charge depending on which fund the investments are held in. The following table shows the charges for each of the funds available in the Plan over the reporting year.

The highest charge levied on any fund is 0.42% pa which is lower than the maximum permitted default fund charge of 0.75% and the Trustee is satisfied that it has negotiated a good deal for members.

Fund Name	Annual management charge (%)	Additional fund expenses %	Total expense ratio %	Transaction costs (%)
Aegon BlackRock UK Equity Idx S5	0.15	0.00	0.15	0.07
Aegon BlackRock World (ex-UK) Equity Idx S4	0.15	0.01	0.16	0.00
Aegon BlackRock Aquila Life Overseas Bond Idx Class S4	0.25	0.02	0.27	-0.05
Aegon BlackRock Cash S2 <sup>1 2</sup>	0.10	0.03	0.13	0.01
Aegon BlackRock Emerging Markets Equity Idx O2	0.23	0.08	0.31	-0.03
Aegon BlackRock ESG Strategic Growth I3	0.40	0.02	0.42	0.09
Aegon BlackRock iShares 5-yr Index-Linked Gilt Idx S3	0.10	0.01	0.11	0.03
Aegon BlackRock MSCI World Idx I1 <sup>1 2</sup>	0.40	0.01	0.41	0.00
Aegon BlackRock 15-yr Corporate Bond Idx	0.15	0.01	0.16	0.11
Aegon HSBC Islamic Global Equity Idx I1	0.40	0.00	0.40	0.01

<sup>1</sup> These funds are used in the Lifestyle arrangements.

<sup>2</sup> These funds are used in the default arrangement

## 2. Chairman's Statement (continued)

### Illustration of charges and transaction costs

From 6 April 2018, The Trustee is also required to produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values.

The tables below illustrates the effect of the costs and charges at different ages on members' projected retirement pots for a typical member invested in the default strategy (Cash Lifestyle Fund).

Active Members:

For a typical active member invested in the Cash Lifestyle Fund, the estimated impact of charges on accumulated fund values is shown below. The amounts shown relate to a member aged 19 (the youngest member in the Plan), current fund value of £1,824, ongoing contributions of £784 pa and a Retirement Age of 65.

Projected pot in today's money (active member)						
Default lifestyle strategy			MSCI World Index		Cash	
Years	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted
1	£2,652	£2,644	£2,652	£2,644	£2,546	£2,543
3	£4,398	£4,362	£4,398	£4,362	£3,940	£3,929
5	£6,246	£6,166	£6,246	£6,166	£5,270	£5,246
10	£11,357	£11,087	£11,357	£11,087	£8,331	£8,266
15	£17,252	£16,654	£17,252	£16,654	£11,050	£10,929
20	£24,052	£22,951	£24,053	£22,951	£13,466	£13,278
25	£31,897	£30,075	£31,897	£30,075	£15,611	£15,350
30	£40,946	£38,135	£40,946	£38,135	£17,517	£17,178
35	£51,384	£47,252	£51,384	£47,252	£19,210	£18,791
40	£63,424	£57,566	£63,424	£57,567	£20,714	£20,213
45	£70,412	£63,351	£77,313	£69,235	£22,050	£21,468

## 2. Chairman's Statement (continued)

### *Illustration of charges and transaction costs (continued)*

Deferred Members:

For a deferred member invested in the Cash Lifestyle Fund, the estimated impact of charges on accumulated fund values is shown below. The amounts shown relate to a member aged 20 (the youngest deferred member), current fund value of £620 and a Retirement Age of 65.

Projected pot in today's money (deferred member)						
Default lifestyle strategy			MSCI World Index		Cash	
Years	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted
1	£635	£633	£635	£633	£605	£604
3	£672	£665	£672	£665	£577	£575
5	£712	£698	£712	£698	£551	£547
10	£821	£790	£821	£790	£489	£482
15	£947	£894	£947	£894	£434	£425
20	£1,092	£1,011	£1,092	£1,011	£386	£375
25	£1,260	£1,144	£1,260	£1,144	£343	£331
30	£1,454	£1,294	£1,454	£1,294	£304	£292
35	£1,677	£1,464	£1,677	£1,464	£270	£258
40	£1,934	£1,656	£1,934	£1,656	£240	£227
45	£2,029	£1,711	£2,174	£1,831	£218	£205

The illustrations above have been carried out in line with the statutory guidance and assume the following:

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. Inflation is assumed to be 2.5% each year.
3. Contributions are assumed to increase in line with assumed earnings inflation of 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rates for each fund (before charges) are as follows:
  - a. MSCI World Index fund: 5.5% pa.
  - a. Cash fund: 0.1% pa.
6. Charges have been assumed to be in line with those over the reporting year (or calendar year in the case of transaction costs) as set out in the table above.

### **Value for Members**

The Trustee is required to assess the extent to which the fees and costs represent good value for members. We have carried out this assessment in relation to the charges set out above and the services offered by the Plan.

## **2. Chairman's Statement (continued)**

### *Value for Members (continued)*

Good value means different things to different people. Good value is a subjective matter and there is no publicly available data which is sufficiently comprehensive, reliable, and consistent to enable us to compare the value of the benefits of Plan membership against those provided elsewhere. We have therefore relied on our own knowledge and experience, the advice of our advisers and the Pensions Regulator's guidance (contained in Code of Practice 13).

We reached our conclusion following a process where we:

- Considered the benefits of membership in terms of the design of the default arrangement, the range of investment options provided, the quality of the Plan's governance and the administration service.
- Looked at the costs paid by the members and compared them to the benefits.

We concluded that, while the fees and costs are not the lowest available on the market, they are competitive, and that membership of the Plan represents good value for members. The main reasons for this are:

- Strong governance and oversight from the Trustee Board.
- Tailored communications and services provided by a dedicated in-house Team.
- A life-styling default investment strategy, designed to de-risk as members approach retirement.
- A competitive range of self-select investment options, alongside the default investment options including the addition of 3 new funds.

Over the 2022 – 2023 Plan year, the Trustee undertook the following steps to improve value or members:

- The Trustee in conjunction with its advisers assessed the suitability of the Plans' default arrangement and implemented the following:
  - Replacement of the Aquila Life 60:40 Equity Fund with the MSCI World Index Fund to mitigate home bias to the UK stock market.
  - Increase the allocation to equities at retirement for the cash-targeting lifestyle so as to retain a degree of capital growth.
  - Transition all members to the cash targeting lifestyle (as opposed to the legacy annuity targeting default arrangement), as this is more aligned with how members are expected to take their pension.
- To cater for member with specific investment needs, the Trustee implemented the addition of 3 new funds to the Plan's self-select range: an ESG focused fund, a Shariah compliant equity fund and an Emerging market equity fund.



## 2. Chairman's Statement (continued)

### Investment returns

The table below shows the net performance of Aegon BlackRock funds over a 1 year, 3 years and 5 years period ending 31 March 2023. The benchmark shown does not take into account the annual management charges levied by Aegon.

2022/23 Movements PB	Investment return % p.a.					
	1 Year		3 Years		5 Years	
Aegon BlackRock Aquila Life Fund	Performance	Benchmark	Performance	Benchmark	Performance	Benchmark
Global equity 60/40	1.62	2.51	13.91	14.45	6.10	6.63
ESG Strategic Growth	2.55*	0.94*	N/A	N/A	N/A	N/A
Islamic Global Equity Index	(3.21)	(2.86)	16.53	17.09	N/A	N/A
MSCI World Index	4.92*	4.88*	N/A	N/A	N/A	N/A
UK index-linked over 5 years	(29.59)	(30.44)	(10.48)	(9.22)	(4.17)	(4.13)
Corporate bonds over 15 years	(23.44)	(23.21)	(8.52)	(8.37)	(3.64)	(3.52)
Cash	2.09	2.22	0.72	0.72	0.71	0.64
UK equity	2.35	2.92	13.45	13.81	4.76	5.04
World ex-UK equity	(1.57)	(1.06)	16.12	16.62	10.76	11.01
Emerging Markets Equity Index	0.77*	0.63*	N/A	N/A	N/A	N/A
Overseas bonds	(2.35)	(2.14)	(5.13)	(4.97)	(0.51)	(0.70)

\* Please note the Aegon BlackRock Emerging Markets Equity Index, ESG Strategic Growth, and MSCI World Index do not have investment return data for the 1, 3 and 5 years period, because they were invested in during the year.

The total overall Plan return for the year was 0.25%.

### Trustee's knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, the investment of Plan assets and other matters to enable them to exercise their functions as Trustee properly. This requirement is underpinned by guidance in the Pensions Regulator's Code of Practice 07. The comments in this section relate to the Trustee as a body in dealing with the Plan.

The Trustee has put in place arrangements for ensuring that it takes personal responsibility for keeping up-to-date with relevant developments and carries out a self-assessment of training needs. The Secretary to the Trustee reviews the self-assessments annually and arranges for training to be made available to individual Trustee Directors or to the whole trustee body as appropriate. In addition, the Trustee receives advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

## **2. Chairman's Statement (continued)**

*Trustee's knowledge and understanding (continued)*

Over the year covered by this statement, the Trustee has:

- reviewed and commented on a deed of amendment, helping to maintain a working knowledge of the Plan's Trust Deed and Rules;
- made decisions on specific member cases, taking into account the requirements of the Plan's Trust Deed and Rules and also the wider law relating to pensions and trusts;
- carried out regular annual tasks, such as reviewing and signing off the Trustee Report and Accounts demonstrating a working knowledge of the Statement of Investment Principles;
- reviewed and discussed an assessment of the DC Section of the Plan against the legal requirements set out in the Pension Regulator's DC Code of Practice, helping to maintain their knowledge of the law relating to (DC) pensions and trusts;

The majority of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit. The remaining Trustee Directors will complete this in the current scheme year. New Trustee Directors are required to complete this within six months of taking up office.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee considers that it is enabled properly to exercise its functions as a Trustee.



Jeremy Stone

Chairman

WHSmith Retirement Savings Plan Limited

30 October 2023