The City and Guilds (1966) Pension Scheme
Annual Governance Statement

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the City and Guilds 1966 Pension Scheme (the Scheme) is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met for the Defined Contribution Section in relation to:

- the investment options in which members' funds are invested (this means the "default arrangement" and other funds members can select (self-select funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment;
- Trustee knowledge and understanding.

This statement relates to the period 1 October 2020 to 30 September 2021 (the "Scheme Year").

Statement of Investment Principles and Default arrangements

The Trustee's Statement of Investment Principles ("SIP") is a document which governs decisions about investments and sets out the aims and objectives of the Scheme's investment strategy. The most recent SIP dated September 2021 is attached to this document in Appendix C and was prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. It includes information on:

- the Trustee's investment policy, including policies on risk and expected return;
- the design of the investment strategy; and
- the approach to the statutory default arrangement.

The investment strategy is reviewed on a regular basis, and updates are made to the SIP if required.

The Scheme is used as a Qualifying Scheme for auto-enrolment.

Members who have joined the Scheme and who did not choose an alternative investment option have been placed into the My Future Lifetime Investment programme, (the "default arrangement"). Details about this strategy are:

Default investment strategy
The **'Aviva My Future Lifetime Investment' programme** is structured as follows: ***Growth Phase*** – up to 15 years prior to the member's selected retirement age, the My Future 'Growth Fund' aims to help pension savings grow by investing in a fund with medium investment risk. This Fund is made up of a variety of passively managed funds investing in shares, Government and Corporate Bonds, and commodities amongst other investments. ***Consolidation Phase*** – at 15 years prior to the member's selected retirement age, investment risk is reduced by gradually moving investments from the My Future Growth Fund to the My Future Consolidation Fund. This switches the investments held from a medium risk portfolio, to a lower risk portfolio which is designed to keep pace with inflation with risk- controlled growth.

The My Future Lifetime Investment programme was implemented as the default investment strategy in September 2019, following a review undertaken by the Trustee in September 2018. No formal review of the default investment strategy took place over the year to 30 September 2021,however the Trustee received regular updates from its investment adviser on matters of interest in relation to the default investment strategy. The next default investment strategy review was due in September 2021 but it was decided to defer this until the end of June 2022 given the Institute's review of future DC pension delivery.

In addition to the default strategy described above, the funds marked with (*) in Appendix A are also classified as default funds, by virtue of holding assets where the member has not made written choice to invest in the fund concerned (due to investment transitions) or having been part of a previous investment main default strategy which was used by the Scheme. The aims and objectives of the default funds and the self-select fund range can be found in the SIP in Appendix C.

The Trustee reviews how the funds within the default strategy (and self-select fund range) have performed against the Trustee's and the investment managers' aims and objectives and their respective benchmarks on a quarterly basis. An update is provided at each Trustee meeting as part of the investment performance monitoring report. The analysis and advice provided supports the Trustee in determining whether it should make any changes based on the performance of funds. The Trustee reviews that took place during the Scheme year concluded that the default arrangements and alternative investment options were performing broadly as expected and were consistent with the aims and objectives as stated in the SIP.

Financial transactions

The Trustee is required to ensure that core financial transactions are processed promptly and accurately, both at a Scheme level and a member level. Core financial transactions include (but are not limited to) the investment of contributions; payments out of the Scheme to, or in respect of, members; transfers in; transfers out; and investment switches.

The Trustee employs both Willis Towers Watson and Aviva to undertake the financial transactions on behalf of the Trustee, with Aviva fulfilling the primary role as the administrator of the Defined Contribution Section of the Scheme. As reported in last year's Chair's Statement, Aviva has moved from using Service Level Agreements (SLAs) to end-to-end processing times as a measure of the timeliness of all core transactions. Aviva measures the quality of its service against customer satisfaction based on the percentage of tasks deemed to have delivered value. Aviva has processes to help achieve good end-to-end times and value scores including daily monitoring of bank accounts, a dedicated contribution processing team and two individuals checking all investment and banking transactions. Aviva's end to end processing times averaged 10 days over the Scheme Year. The Trustee have agreed SLAs with Willis Towers Watson of 5 days for most tasks with a tighter target SLA of 3 days for death cases and longer targets for transfer quotes, HMRC queries and HMRC traces.

An update on Aviva's and Willis Towers Watson's performance against their respective service targets is provided at each Trustee meeting. In addition, Aviva's performance is measured against other providers in the market and reported on by the Trustee's advisers.

Common data refers to basic information used to identify a member for example National Insurance number, date of birth and address. Four common data assessments were completed during the reporting period (in quarter four of 2020 and quarters one, two and three of 2021) with common data score results of 96.6%, 96.1%, 97.1% and 97.2%. The next data review will take place in 2022.

The Trustee periodically carries out a review of the Scheme's providers to establish how vulnerable each provider would be to a potential cyber security attack, with the last review taking place in November 2018. In addition, cyber security is included within the Scheme Risk Register, which is monitored at each quarterly Trustee meeting. This is because a cyber security breach impacting on the systems of any of the Scheme's providers poses a key risk to the Scheme's ability to promptly and accurately process core financial transactions. As part of the last review the Institute's IT team's Group Architecture Manager reviewed Aviva and Willis Towers Watson's cyber security policies and confirmed that both meet required security standards.

Aviva continued with the majority of employees working from home during the COVID-19 pandemic. There was a marked decline in the performance due to changing member behaviours increasing call volumes and call durations, along with the adverse impact of the pandemic reducing helpline capacity. Additional resources were recruited and the performance improved significantly by the end of the Scheme year.

Based on the information set out above, the Trustee is satisfied that over the period covered by this statement:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed timescales for processing transactions
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly during the Scheme year.

The Trustee continues to oversee all its administration support with input from its advisers and continues to press for improvements where possible.

Investment charges and transaction costs

The Trustee is required to set out the on-going charges paid by members. These charges comprise annual management charges (AMCs) plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude day to day administrative costs of running the Scheme as these are paid for by the Institute.

The Trustee is also required to separately disclose transaction cost figures that are paid by members. In the context of this statement, the transaction costs shown are those incurred by the investment managers as a result of buying, selling, lending or borrowing investments. The Financial Conduct Authority (FCA) has issued a Policy Statement which establishes a defined methodology to calculate transaction costs that is in line with the Packaged Retail and Insurance-based Investments (PRIIPs) Regulations. These requirements took effect from 3 January 2018 and investment managers are now obliged to report transaction costs using this methodology. Transaction 'costs' can be negative as well as positive, meaning that transactions (typically any inflow of monies into a fund) can have a positive as well as a negative effect on charges.

Aviva has a tool for calculating transaction costs using the FCA's methodology, and this has been used to calculate the figures shown. The Trustee believes that the transaction costs incurred by the Scheme are within a reasonable range and are similar or lower than those incurred by other providers and schemes.

The TER (total expense ratio – as explained above) and the transaction costs for all of the available funds during the period covered by this statement are set out in Appendix A.

Costs and charges illustrations are attached in Appendix B. These are required under statutory guidance issued by the Department for Work and Pensions in February 2018. The illustration estimates, on reasonable assumptions, the cumulative effect over time of the charges and transaction costs on the value of a range of typical investment funds, pot sizes and contribution rates for DC Section members. The examples have been prepared taking account of the statutory guidance available.

Value for Members

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members on an annual basis. It is difficult to give a precise legal definition of "good value", but the Trustee considers that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme as a whole, when compared to other options available in the market.

The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits). The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was February 2022 and covered the Scheme Year to 30 September 2021. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's DC advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustee appointed Willis Towers Watson to carry out the value for members assessment. Based on its understanding of the Scheme's membership, the review of supporting evidence, and knowledge of other Trust based DC schemes, Willis Towers Watson advised the Trustee that they consider the membership continued to receive good value across the services. A scheme is viewed as offering good value for members if the scheme demonstrates that it offers services that are of good quality and meet the specific needs of the membership, set against the costs and charges members pay. A rating of good would typically mean that the scheme demonstrates some areas of strength with few areas of weakness.

The assessment itself was closely based on the Regulator's framework as outlined in its 'how to' guide for assessing value, including:

- clear identification of the services members are paying for (in this instance, members only meet the investment costs);
- an evaluation of the Scheme's charges against the wider market (for comparable services);
- an evaluation of the range and performance of the services provided against the perceived member need including investment, administration, communication and governance oversight;
- conclusion on whether the Scheme offers members good value; and
- considering any areas of perceived poor value.

In carrying out the assessment, the Trustee also considered, in the context of the members' preferences, characteristics and needs, the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Fund is compliant with relevant legislation, such as the charge cap, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Scheme's website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

In summary, overall, the Trustee believes that members of the Scheme are receiving good value for the charges and costs that they incur, for the following reasons:

In respect of services members pay part or all of the cost for:

- Members receive good value in the area of charges as the Scheme's core Annual Management Charge (AMC) remains below the average for bundled schemes. The Scheme offers an effective low cost default fund and the charges applied to the self-select fund options are all well below the charge cap (0.75%). The transaction costs applied to members' accounts are considered reasonable based on the information available. A reduction in the Scheme's core AMC to 0.22% pa took place with effect from 27 January 2021.
- Members receive good value in the area of investment. The Scheme offers a default that is suitable for members who wish to take benefits via drawdown, an annuity or cash at retirement as well as a variety of self-select funds.
- Members receive sufficient value in the area of administration. As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes. Improvements continue to be made to the service that members receive and the Trustee continues to monitor the service provided. It should be noted that the DC

Section's administrator, Aviva also works with Willis Towers Watson as the Defined Benefit administrator to co-ordinate the payment of DB and DC benefits for hybrid Scheme members. Members do not pay for the cost of the DB administration.

- Members receive good value in the area of communications. The variety of communications available to meet member needs for information, guidance and education. These include an online portal with information and planning tools, and standard member communications such as benefit statements and retirement quotations.

In respect of other benefits that members receive from the Scheme, which they do not meet the cost of:

- Members benefit from a well governed scheme where the Trustee carefully assesses and monitors investments and ensures a comprehensive and high-quality administration service is maintained
- Access to the expertise of the Pension Department who often act as point of contact for member queries, which anecdotally members value.
- Additional communications from the Trustee and Pension Department that are accurate, clear, informative and timely. These communications focus on encouraging members to take actions to improve outcomes.

Trustees' knowledge and understanding (TKU)

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally; and

- Have, to the degree that is appropriate to enable the director to properly exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investing the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below. The Trustee consists of six Trustee Directors. When vacancies on the Board arise, care is taken to assess candidates against the needs for effective governance of the Scheme, aiming to ensure the Board includes individuals with a range of skills, knowledge and experience appropriate to the management of the Scheme. The combined knowledge and understanding of the Trustee as described below, together with the advice that is available to it, enables the Trustee to properly exercise its function as trustee of the Scheme:

- The combined experience of the Trustee Board includes corporate executive level expertise in financial matters, risk management, employee/member engagement and communications, investment and legal matters.
- Specialist legal, actuarial, DC and investment advisers attend Trustee meetings to advise on specific matters on the agenda and may contribute more generally to discussions.
- The Trustee Chairman is an accredited professional Trustee who brings further technical knowledge and understanding to proceedings.
- The Board is conversant with the Scheme's Rules, Statement of Investment Principles and other key administrative documents such as Scheme policies and has appropriate knowledge of pensions and trust law and matters relating to the Scheme's funding and investment.

The Trustee has a strong TKU process in place which enables it, along with the advice from its advisers, to properly exercise its function as Trustee of the Scheme. The Trustee has met the legal and regulatory requirements regarding knowledge and understanding by:

- A structured induction process in place for new Trustee Directors including providing briefing sessions for new trustees, depending on needs, from the Pension Team and/or advisers
- Considering, with the help of their advisers, regular training requirements to identify any knowledge gaps. The Trustee's DC and investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this statement, the Trustee received training on the following topics: Climate Risk and Environmental, Social and Governance investments.
- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chairman's Annual Governance Statement.
- Circulating to each Trustee hot topics and general updates from its advisers about DC matters. Examples of hot topics in the reporting period include Pension Dashboards, The Pension Schemes Act 2021, the new single Code of Practice and guidance for combating pension scams.
- Reviewing the training programme annually following an assessment of Trustee knowledge, understanding and skills, and assessing any gaps to be addressed in the next year.
- Carrying out an effectiveness self-assessment annually.
- Ensuring that the Trustee has a working knowledge of all key documents setting out the Trustee's current policies, including the Trust Deed and Rules and the Statement of Investment Principles.

The Trustee Board's combined knowledge and understanding, together with advice available to them enables them to exercise their functions effectively. The Trustee undertakes annual evaluation of the performance and effectiveness of the board as a whole measured against the objectives of the Scheme's Business Plan. The evaluation was completed through assessment of the Trustee's involvement in the Scheme; the decisions made at Trustee meetings and execution of those decisions. This review was last undertaken in November 2020 through peer review and internal discussion amongst the Trustee Directors. The Trustee also takes steps to disclose and manage potential conflicts, risks or bribery issues. Finally, the Trustee reviews administration and stewardship reports and take actions when required as a result of these reviews.

The Trustee's DC and investment advisers were present at or available to each Trustee meeting over the reporting period and were available to provide support to the Trustee in between meetings. Advisers are usually reviewed every three years. The last full review took place in June 2017 and the services provided by the Scheme's advisers extended in June 2020 to accord with specific work required under the Trustee's business plan.

The Trustee is satisfied that the Scheme has been well governed and operated in accordance with the Pensions Regulator's expectations. All key developments during the Scheme year, have taken place in accordance with these governance standards.

Signed by the Chair on behalf of the Trustee of the Scheme: D Visavadia

Date: 24th March 2022