Ashfield Healthcare Communications Group Pension Scheme (the "Scheme")

Annual Chair's Statement for the Scheme Year

This statement has been prepared by the Trustees of the Ashfield Healthcare Communications Group Pension Scheme ("the Scheme") in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Regulations") 1996. It explains how the Trustees have met their obligations in relation to the management of the Scheme over the period 1 February 2021 to 31 January 2022 ("the Scheme Year").

The Scheme was established in 1984 and is set up in a different way to most current arrangements in the wider Defined Contribution ("DC") market. In some regards, it would be considered a legacy Scheme. This means that when compared against a more modern DC arrangement, the Scheme does not offer a member access to some of the features that are usually available, but on the other hand, unlike modern DC arrangements, the Scheme has the benefit of a potentially valuable guaranteed annuity option available at retirement. In line with the Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 ("the 2021 Regulations"), the Trustees have assessed the extent to which they believe the Scheme provides Value for Members, the results of which are set out in this statement.

1. The Default Arrangements

Appended to this statement is a copy of the Scheme's latest Statement of Investment Principles ("SIP") which governs the Trustees' decisions about investments, including its aims, objectives and policies for the Scheme's default arrangement. In particular, the SIP covers the Trustees' investment policies on risk, return and ethical investing and how the default arrangement is intended to ensure that assets are invested in the best interests of members. This SIP was reviewed in 2022 with this being in line with the requirement to review the SIP at least every three years (or after any significant change in investment policy).

Due to the nature of this legacy Scheme, on joining, members were placed in the Scheme's default and only investment arrangement available: the Scottish Mutual With-Profits fund. The Scottish Mutual With-Profits fund invests in a mix of higher risk assets such as company shares (equities) and property and lower risk assets such as fixed interest stocks (bonds or loans issued by governments or companies) and cash deposits.

Phoenix Life has full control over the investments that the With-Profits Fund invests in in order to reach a balance between increasing the value of investments and the need to meet the guarantees available under the policy (the nature of the guarantees are covered in more detail later in this Statement). The below asset mix (split into growth assets and fixed interest & cash assets) was correct as at 31 December 2021:

Asset type	With-Profits traditional pension policies
Company shares (equities)	23%
Property	4%
Other growth assets	4%
Growth assets	**31%**
Fixed interest stocks - issued by the UK government (gilts)	35%
Fixed interest stocks - other (including corporate bonds)	34%
Cash	0%
Fixed interest and cash assets	**69%**
Total assets	**100%**

Source: Phoenix Life, 31 December 2021

Members can access more information on the Scottish Mutual With-Profits fund on the Phoenix Life website: www.phoenixlife.co.uk

The aim of the Scottish Mutual With-Profits fund is to generate capital growth over the medium to long term (at least five years), with some stability against market volatility over the short term than investing directly in shares.

As part of the With Profits investment, the Scheme provides benefits to members in the form of a guaranteed annual Pension Income Annuity from selected retirement date, to which Phoenix Life may add bonuses. This will be further discussed in the 'Value for Member' section of the Chair Statement.

As With Profits funds operate slightly differently to traditional unit-linked investment funds, please see below a summary setting out how they work:

Overview of With Profits funds

- Contributions are pooled together and invested in the insurance company's With Profits fund.
- The With Profits fund is invested in a range of different types of investment, such as shares, property, bonds and cash.
- With most policies, the amount of growth on contributions depends mainly on the performance of the investments in the With Profits fund.
- The costs of running the fund are deducted and what is left over (the profit) is available to be paid to the With Profits investors. Investors receive a share of profits in the form of annual bonuses added to their policies. This is usually "smoothed" so that in years where investment returns are high, some is held back to allow bonuses to be paid in years where investment returns are low.
- A "terminal bonus" may also be payable when investors retire and it is designed to broadly reflect the actual performance of the fund over the period invested.
- Usually, once added, bonuses can't be taken away. But the insurance company can claw back some or all of the bonuses paid by making a Market Value Reduction (MVR) – or Market Value Adjustment (MVA) – to policies if they are surrendered early (i.e. if investors transfer out of the fund or take their benefits before retirement date). This is most likely in times of adverse investment conditions like a stock market crash.
- The potential reductions (or enhancements) to funds are unique to each individual member's circumstance. It is therefore not possible to consider whether it is beneficial for members to transfer without considering the individual transfer values and also any applicable guarantees (like the guarantee mentioned previously) that could also be lost on transfer.

The Trustees last completed an investment review of the performance and strategy of the default arrangement in December 2019. The investment review highlighted a number of general concerns in relation to With-Profits investments and stated that when compared against a more modern DC arrangement, the Scheme does not offer access to a range of alternate investment options. However, the review highlighted that unlike modern DC arrangements, the Scheme has the benefit of a potentially valuable guaranteed annuity option available at retirement.

The Trustees will review the suitability of the default arrangement at least every 3 years (or sooner if there are any significant changes in investment policy or member demographics) with the next review being expected to take place in December 2022.

The Trustees are currently undertaking a strategic review of the Scheme. The outcome is likely to be finalised in 2022 and communicated in next year's Chair's Statement, if not before.

2. Financial Transactions

In the previous Scheme year, the Trustees requested details of the service level agreements within which Phoenix Life commit to undertake administration tasks. Phoenix Life confirmed that this information is not available

The Trustees continue to monitor the payment of contributions to Phoenix Life for those members that are still making contributions by checking the monthly payroll deductions and annually through the audit process of the Scheme's accounts.

The Trustees' annual Report and Accounts are also independently audited annually by the Scheme's appointed auditor, MHA Moore and Smalley.

3. Charges and Transaction costs

Each year, the Trustees request information on charges and member-borne transaction costs relating to the Scheme. Phoenix Life have confirmed that member charges were as follows over the Scheme Year:

- 0.426% per policy expense or Annual Management Charge ("AMC")
- 0.177% investment expense or Fund Management Charge ("FMC").

Which gives an effective Total Expense Ratio ("TER") of 0.603%.

To put this into context, For a policy with a value of £20,000 then, during the update year, estimated charges of £120.60 would be deducted. This would be made up of £85.20 to cover administration expenses of the fund and £35.40 to cover investment expenses.

The member borne charges for the default arrangements were within the charge cap during the Scheme Year.

Manager	Fund	Fees (% p.a.)	Transaction charges (% p.a.)
Phoenix Life Limited	Scottish Mutual With-Profits Fund	0.603	0.104%

Transaction charges

Following the regulations enforced from 6 April 218 onwards, the Trustees are required to provide members with additional information in relation to investment charges and core transaction costs. This is in the interest of greater transparency of costs to members. These are required to be set out as example member illustrations that have been prepared with regard to the relevant statutory guidance: ‘Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes.

Transaction costs are defined as the costs incurred as a result of buying, selling, lending or borrowing investments. They are typically categorised as explicit costs and implicit costs. Examples of explicit costs include broker fees, transaction taxes and custody fees. Implicit costs cannot be observed in the same way but will also result in a reduction in the total amount of capital invested. Examples of implicit costs include bid-ask spreads and market impact.

Phoenix Life confirmed that as at July 2022, transaction charges for the Scottish Mutual With-Profits Fund are 0.104% p.a. for the 2021-22 Scheme Year.

The illustrations of the charges for Scheme members are set out and explained in the Appendix of this Chair’s Statement.

4. **Value for member assessment**

As the Scheme has total assets of below £100m, under the 2021 Regulations, the Trustees are required to carry out a more detailed Value for Member assessment. This includes using three comparator schemes for the purpose of comparing the costs and charges and net performance returns of the Scheme with other larger DC schemes.

The comparator schemes chosen include a bundled DC arrangement and an unbundled DC arrangement, both with DC assets in excess of £100m. The third comparator is a Master Trust arrangement capable of taking on the benefits and assets of the Scheme.

The costs and charges and net investment returns of the Scheme and those of the comparator schemes chosen are set out in the Appendix to this Statement.

The Appendix highlights that higher charges are applied to members policies within the Scheme than the comparator schemes in terms of the Default Investment Strategy.

In addition, the net Investment returns of the Default Investment Strategy of the Scheme are below the returns of the comparator schemes over the periods assessed.

Although the comparator schemes’ defaults are not with-profits funds and so do not represent a true a like for like comparison, on the basis of costs and charges and net investment returns alone, they suggest that the Scheme does not provide good value for members relative to the comparator schemes.

In addition, the Trustees are required to carry out a self-assessment of scheme governance and administration against certain criteria, which are prescribed in the 2021 Regulations. The Trustees’ assessment of the Scheme’s governance and administration against the areas prescribed in the 2021

Regulations does not change the position materially, suggesting that the Scheme does not provide good value for members on the whole relative to the comparator schemes.

The only mitigating factor is the fact that the Scheme provides potentially valuable guaranteed benefits at retirement. At the time of writing, the underlying provider has not been able to provide sufficient information to enable the Trustees to reach a conclusion on whether the guaranteed benefits are valuable enough to change the outcome of this assessment. However, based on the information that is available, it appears that, even allowing for these benefits, the Scheme does not provide value for members overall relative to the comparator schemes. The Trustees are, therefore, currently reviewing the position with a view to potentially winding-up the Scheme and moving members to an arrangement that offers better value.

5. Net Investment Returns

The Occupational Pension Schemes (Administration, Investment, Charges and Governance Amendment) Regulations 2021 introduces new disclosure requirements for Trustees of DC pension schemes. From 1 October 2021, the Trustees are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges. The Trustees calculated the return on investments, as far as they were able to do so.

Below are the annualised net investment returns to 31 December 2021 for the Phoenix Life Limited Scottish Mutual With-Profits Fund.

Ashfield Healthcare Communications Group Pension Scheme (the "Scheme")	**Annualised returns (%)**	
	1 year	**5 years**
Age of member at start of reporting period:		
Default Lifestyle - age 25	1.29%	3.82%
Default Lifestyle - age 45	1.29%	3.82%
Default Lifestyle - age 55	1.29%	3.82%

Notes

- The annualised net returns for the Scheme at 5 years are based on the Total Expense Ratio and Transaction Costs for the Scheme Year.

6. Trustee Knowledge and Understanding (TKU)

The law requires the Trustees to possess sufficient knowledge and understanding to enable them to properly exercise their functions as a trustee including (in relation to a DC scheme) that they must be conversant with:

- The trust deed and rules of the scheme.
- The statement of investment principles.
- Any other scheme administration policies or scheme documents.

And must have appropriate knowledge and understanding of:

- The law relating to pensions and trusts.
- The principles relating to
  - The funding of occupational pension schemes.
  - Investment of the assets of such schemes.

The Trustees undertake the Pension Regulators Training Toolkit assessment and verified during the Scheme Year that that all Trustees have recently completed this. The Trustees also put a process in place to assess whether there are any areas where they may benefit from refreshing their knowledge and consider this as part of a Trustee training plan.

Signed on behalf of the Trustees

Cliff McConkey, Chair of Trustees

Appendix 1 - Illustrations of the effect of costs and charges including comparison against three comparator Schemes

Background

The next pages contain illustrations about the cumulative effect of costs and charges on member savings within the Scheme over a period of time. The illustrations have been prepared with particular regard to statutory guidance.

As each member has a different amount of savings within the Scheme, and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make a number of assumptions about what these might be. The assumptions are explained in the Notes section below the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future. This means that the information contained in this Chair's Statement is not a substitute for the individual and personalised illustrations that are provided to members each year by the Scheme.

Key points to note

The charges shown in this Statement and illustrated on the next pages have always been in place. These are not new charges. The only difference is that the Trustees are required by legislation to demonstrate the effect of charges on member's investments. The Trustees work to improve the value obtained for these charges on behalf of members as set out earlier in this Statement.

Guarantees

As part of the Phoenix Life policy and investment in the Scottish Mutual With-Profits Fund, members are guaranteed a set level of annual income (known as a guaranteed deferred annuity), payable from age 65 if active members continue to pay contributions at a set rate until this age, or if deferred members remain invested until the age of 65.

The guaranteed deferred annuity is confirmed in annual benefit statements received from Phoenix Life and will depend on:

- When members actually retire and start to access their pension
- The actual contributions made
- How much it costs to purchase a pension at retirement date.

The below illustrations show Cash Value available for transfer and do not cover details or value of any Scheme guarantees.

Illustrations

There is only one investment option available to members: the Scottish Mutual With-Profits fund. The chart below illustrates the potential impact that costs and charges might have on investment in this fund. The illustrations cover a range of expected returns and charges in line with the legislation.

In each of the illustrations, the "Before charges" column gives the hypothetical value of the investments if members were able to invest at no cost. However, there will always be some cost to investing. This is because the organisations that manage the funds charge fees for their services, and also because buying and selling the stocks and shares which drive the funds' performance also has a cost. The "After all costs and charges deducted" column reflects the performance of the fund after these costs have been deducted.

Illustration one

The table below sets out the projected pot size at age 65 for an active member currently aged 36 invested solely in the Scottish Mutual With-Profits fund. Please see the Notes below for more details of the projections.

Active Member - 36 years old		
	Phoenix Life Limited - Scottish Mutual With-Profits Fund	
Years	Before Charges (£)	After all charges + costs deducted (£)
1	36,270	36,026
3	42,688	41,886
5	48,954	47,502
10	64,025	60,552
15	78,370	72,325

20	92,129	82,979
25	105,430	92,649
30	118,386	101,457

Notes

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. Retirement is assumed to be at age 65.
3. As the Scheme is closed to new members, the member in the above table is assumed to have a starting pot of £33,000 at age 36.
4. Inflation is assumed to be 2.5% each year.
5. Gross contributions for active members of £3,000 per annum are assumed from the start of the projection to retirement and are not assumed to increase. This is because member's contributions to the Scheme are fixed in £ terms.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates in relation to inflation for the Scottish Mutual With-Profits fund are 1% above inflation.
8. The charges assumed are the current charges as shown in the Chair's Statement.

Illustration two

The table below sets out the projected pot size at age 65 for a deferred member currently aged 48 invested solely in the Scottish Mutual With-Profits fund. Please see the Notes below for more details of the projections.

Deferred member - 48 years old		
	Phoenix Life Limited - Scottish Mutual With-Profits Fund	
Years	Before Charges (£)	After all charges + costs deducted (£)
1	18,180	18,053
3	18,545	18,159
5	18,918	18,265
10	19,883	18,534
15	20,897	18,808
17	21,317	18,918

Notes

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. Retirement is assumed to be at age 65.
3. The deferred member in the above table is assumed to have a starting pot of £18,000 at age 48.
4. Inflation is assumed to be 2.5% each year.
5. No contributions are assumed in the projection to retirement, and this is not assumed to change. This is because deferred members do not contribute to the Scheme.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates in relation to inflation for the Scottish Mutual With-Profits fund are 1% above inflation.
8. The charges assumed are the current charges as shown in the Chair's Statement.

Illustration three

The tables below sets out Schemes costs and charges against three comparator Schemes.

	Ashfield				Comparator 1			
	AMC	**T-costs**	**FMC**	**Total Charges**	**AMC**	**T-costs**	**FMC**	**Total Charges**
Default - age 65	**0.426%**	**0.104%**	**0.177%**	**0.707%**	**0.10%**	**0.03%**	**0.16%**	**0.29%**
Default - age 55	**0.426%**	**0.104%**	**0.177%**	**0.707%**	**0.10%**	**0.03%**	**0.16%**	**0.29%**
Default - age 45	**0.426%**	**0.104%**	**0.177%**	**0.707%**	**0.10%**	**0.05%**	**0.16%**	**0.31%**
Default - age 35	**0.426%**	**0.104%**	**0.177%**	**0.707%**	**0.10%**	**0.05%**	**0.16%**	**0.31%**
Self Select Fund 1	**N/A**	**N/A**	**N/A**	**N/A**	**0.70%**	**0.37%**	**0.16%**	**1.23%**
Self Select Fund 2	**N/A**	**N/A**	**N/A**	**N/A**	**0.60%**	**0.04%**	**0.16%**	**0.80%**
Self Select Fund 3	**N/A**	**N/A**	**N/A**	**N/A**	**0.55%**	**0.35%**	**0.16%**	**1.06%**
Self Select Fund 4	**N/A**	**N/A**	**N/A**	**N/A**	**0.07%**	**0.00%**	**0.16%**	**0.23%**

	Comparator 2				Comparator 3			
	AMC	**T-costs**	**FMC**	**Total Charges**	**AMC**	**T-costs**	**FMC**	**Total Charges**
Default - age 65	**0.42%**	**0.19%**	**0.00%**	**0.61%**	**0.28%**	**0.12%**	**0.00%**	**0.40%**
Default - age 55	**0.38%**	**0.17%**	**0.00%**	**0.62%**	**0.22%**	**0.17%**	**0.00%**	**0.39%**
Default - age 45	**0.33%**	**0.15%**	**0.00%**	**0.48%**	**0.22%**	**0.17%**	**0.00%**	**0.39%**
Default - age 35	**0.33%**	**0.15%**	**0.00%**	**0.48%**	**0.22%**	**0.17%**	**0.00%**	**0.39%**
Self Select Fund 1	**0.33%**	**0.15%**	**0.00%**	**0.48%**	**0.24%**	**0.00%**	**0.00%**	**0.24%**
Self Select Fund 2	**0.76%**	**0.23%**	**0.00%**	**0.99%**	**0.69%**	**0.16%**	**0.00%**	**0.85%**
Self Select Fund 3	**0.39%**	**0.19%**	**0.00%**	**0.58%**	**0.34%**	**0.03%**	**0.00%**	**0.37%**
Self Select Fund 4	**0.21%**	**0.08%**	**0.00%**	**0.29%**	**0.95%**	**0.66%**	**0.00%**	**1.61%**

Appendix 2 - Illustrations of the effect of annualised net investment returns against three comparator Schemes.

	Ashfield		Comparator 1		Comparator 2		Comparator 3	
	Annualised returns (%)		**Annualised returns (%)**		**Annualised returns (%)**		**Annualised returns (%)**	
	1 year	**5 years**	**1 year**	**5 years**	**1 year**	**3 years**	**1 year**	**5 years**
Default Lifestyle - age 25	**1.29%**	**3.82%**	**7.40%**	**6.20%**	**15.20%**	**11.90%**	**11.50%**	**7.98%**
Default Lifestyle - age 45	**1.29%**	**3.82%**	**7.20%**	**6.20%**	**15.20%**	**11.73%**	**11.50%**	**7.98%**
Default Lifestyle - age 55	**1.29%**	**3.82%**	**7.20%**	**5.20%**	**12.16%**	**10.00%**	**11.50%**	**7.91%**
Self Select Fund 1	**N/A**	**N/A**	**3.00%**	**1.20%**	**15.29%**	**11.89%**	**24.90%**	**13.60%**
Self Select Fund 2	**N/A**	**N/A**	**16.80%**	**10.60%**	**4.73%**	**5.44%**	**21.80%**	**7.20%**
Self Select Fund 3	**N/A**	**N/A**	**3.20%**	**4.30%**	**0.15%**	**62.00%**	**27.20%**	**18.40%**
Self Select Fund 4	**N/A**	**N/A**	**-7.10%**	**3.30%**	**-0.43%**	**7.57%**	**0.80%**	**6.40%**

Note

- The annualised net returns for the Scheme at 5 years are based on the Total Expense Ratio and Transaction Costs for the Scheme Year.