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 2020 to 31 January 2021 ("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. The Trustees continue to believe that the Scheme provides reasonable value for members who plan to exercise this option at retirement and are taking steps to improve the arrangement for members wherever possible.

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 most recent SIP was produced as at 31 January 2019. The Trustees will be required 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 2020:

Asset type	**With-Profits group pension policies**
Company shares (equities)	25%
Property	4%
Other growth assets	3%
Growth assets	**32%**
Fixed interest stocks - issued by the UK government (gilts)	32%
Fixed interest stocks - other (including corporate bonds)	33%
Cash	3%
Fixed interest and cash assets	**68%**
Total assets	**100%**

Source: Phoenix Life, 1 January 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.

This 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 are aware of these concerns and are looking to undertake a number of recommended actions, such as communicating with members around the nature of With-Profits investments and how they can best use the guaranteed annual Pension Income Annuity to meet their desired retirement outcomes.

The Trustees also undertook a review of investment performance in December 2020. Like the SIP, the Trustees will review the suitability of the default arrangement, the Scheme's annuity target outcome in relation to member demographics and whether the guaranteed annuity benefit remains valuable to members at least every 3 years (or sooner if there are any significant changes in investment policy or member demographics).

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 has confirmed that there are three charges allowed for in their bonus calculations relevant to the Scottish Mutual With-Profits Fund:

- 0.485% per policy expense or Annual Management Charge ("AMC")
- 0.159% investment expense or Fund Management Charge ("FMC").

Which gives an effective Total Expense Ratio ("TER") of 0.644%.

To put this into context, for a policy with a value of £20,000 then, during the update year, estimated charges of £128.68 would be deducted. This would be made up of £96.87 to cover administration expenses of the fund and £31.81 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	0.644	0.228%

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 June 2021, transaction charges for the Scottish Mutual With-Profits Fund are 0.288% p.a. for the 2020-21 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**

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the charges and transaction costs represent good value for members. In doing so the Trustees have considered the default arrangement and the benefits offered by the Scheme in comparison with the other options available in today's wider DC market.

The Scheme, established in 1984, is set up in a different way to most current arrangements in the wider DC market and, in some regards, it is a legacy Scheme. When compared against a more modern DC arrangement, it does not offer a member access to 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. The Trustees believe that the Scheme provides reasonable value for members who plan to exercise this option at retirement.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustees carried out a value for money assessment of the Scheme across seven key areas. In each area, the Scheme was compared against typical market practice and given a RAG (red, amber, green) status based on this. The results were as follows:

Scheme charges: The Scheme's default arrangement has a TER charge of 0.644% p.a. which is lower than the 0.75% p.a. industry charge cap and was found to offer reasonably good value to members with the Scheme scoring average in this area. Further information on charges and illustrations can be found in the Appendix to this Statement.

Investment options and performance: The Scheme offers one investment option (the default arrangement: the Scottish Mutual With-Profits fund), which is unlike the current offerings in the wider DC Market. However, a positive feature of the Scheme's investments are the potentially valuable guarantees associated with the With-Profits Fund. The Trustees received an update on the investment performance of the With-Profits Fund in the Scheme Year and will undertake more detailed reviews every three years – the next being due in 2022. Given these actions and increased monitoring, the Scheme scored average in this area.

Retirement support: The Scheme does not provide members with the same levels of flexibility at retirement as afforded by more modern schemes in the wider DC market. The Scheme's provider, Phoenix Life, provides only limited support for members in making a retirement decision via the issue of their member retirement packs. Taking the wider DC market into consideration, the Scheme scored below average in this area.

Governance: The Trustees have continued with their updated governance plan that was introduced in the 2019-20 Scheme Year. The changes made included documenting a Trustee training plan and undertaking a review against the Pension Regulator's DC Code of Practice. The Scheme scored average in this area for the 2020-21 Scheme Year.

Administration: The Trustees have been constrained in undertaking regular reviews and measuring the performance of the administration provider, Phoenix Life, as Phoenix Life does not provide reporting against Service Level Agreements ("SLAs"), a standard measure of administration performance in the wider DC market.

The Trustees general experience of Phoenix Life, obtained when supporting members with their queries, is that the responses received can be slow and sometimes incomplete or incorrect. The Trustees, with support from the Company, continue to support members in receiving information from Phoenix Life and have been proactive in lodging complaints in relation to this where appropriate, which have resulted in some evidence of improved responsiveness.

Contributions and associated benefits: A key feature of the Scheme is that it provides a potentially valuable benefit to members in the form of a guaranteed annual Pension Income Annuity, to which Phoenix Life may add bonuses. This benefit is only provided at selected retirement date. The Scheme also allows the Pension Income Annuity benefit to be exchanged for a lump sum at fixed rates, which are set out in the Scheme Rules.

As the guarantee is not applicable on incremental contributions, these have remained fixed in pound (£) terms for members, and the Trustees have facilitated the payment of additional contributions into a separate DC arrangement for active members. Please note that this separate DC arrangement is not covered further or discussed in this Statement.

As a result, the Scheme scored strongly in this area.

Member education and engagement: Members receive annual benefit statements from Phoenix Life, which are supplemented by an 'Explanatory Note for Active Members'. This is reviewed annually by the Trustees. However, the Scheme scored below average in this area when compared against the more modern education and engagement tools available in the wider DC market, such as online calculators, video benefit statements and apps, for example. During the Scheme Year the Trustees prepared a more detailed update for members on the features of their investments with Phoenix Life. to help members establish whether this represents good value for them.

Summary: The Scheme is different from most current, modern arrangements in the wider DC market in that it only has one investment option and, in some regards, it is a legacy Scheme that is still in existence because of the potential value of the guaranteed benefits for members. Therefore, when compared against a current arrangement in the wider DC market, it inevitably scores poorly as it does not offer access to features available to members of more modern DC arrangements. On the other hand, unlike more modern DC arrangements, the Scheme has the benefit of a guaranteed annuity option available at retirement. The Trustees believe that the Scheme provides reasonable value for members who plan to exercise this option at retirement.

5. 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 - Illustrations of the effect of costs and charges

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	35,969
3	42,688	41,701
5	48,954	47,169
10	64,025	59,769
15	78,370	70,988
20	92,129	80,991
25	105,430	89,922
30	118,386	97,911

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	18,023
3	18,545	18,069
5	18,918	18,115
10	19,883	18,232
15	20,897	18,349
17	21,317	18,396

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.