Metal Improvement Company Hourly Paid Pension Scheme – Governance Statement

Introduction

I am pleased to present the Trustees' annual statement of governance, covering the period 1 January 2023 to 31 December 2023. This statement describes how the Trustees seek to ensure that the Metal Improvement Company Hourly Paid Pension Scheme ("the Scheme") is well-managed and delivers appropriate services to members. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulation 2015 (the 'Regulations'). This statement covers the following key areas:

- The Investment Arrangements;
- Processing of core financial transactions;
- Member borne charges and transaction costs, including Value for Members; and
- The Trustees' compliance with the statutory knowledge and understanding requirements.

1. The Investment Arrangements

The Scheme is closed to new entrants and future accrual. No contributions have been paid to the Scheme since the Regulations came into force and the Scheme is not a qualifying scheme for auto enrolment purposes. The Scheme therefore has no requirement for a default arrangement, as defined by the Charges and Governance Regulations. The requirements in relation to a default investment strategy do not apply to the Scheme and are therefore not covered in this statement. The Trustees reviewed and updated the SIP during the Scheme year in September 2023, to reflect an updated approach to ESG risk management, as well as a section on socially responsible investment and ESG policies held by the Trustees.

The Scheme's DC and AVC investments are managed by Scottish Widows in a With-Profits Fund. The Scheme also holds investments in a Legal and General Investment Management ("LGIM") Index-Linked Gilts Fund and cash deposits with the Bank of Scotland to cover any shortfall arising from a member's Guaranteed Minimum Pension (GMP) underpin. The allocation to Index-Linked Gilts was implemented in 2018 in order to reduce risk relative to the Scheme's GMP liabilities.

The Scheme also holds insurance policies with Canada Life and Prudential which provide annuity income to cover pensions for certain members. Please note that the Trustees have not included further information on these annuities in payment, as they are not considered relevant in relation to the overall investments of the Scheme.

2. Processing of Core Financial Transactions

The Scheme is closed to new entrants and future accrual. There are no contributions payable to member accounts. All member transactions are undertaken on behalf of the Trustees by a combination of LGIM, Scottish Widows and Aon (the Scheme administrators). All investment transactions are processed by the investment managers. A schedule of transactions and compliance with Service Level Agreements (SLAs) is provided in the Aon administration reports. Aon makes available frequent administration monitoring reports and any issues are raised as part of the Trustee meetings. Should there be any significant administration issues which require immediate attention, these will be raised directly with the Trustees outside of regular meeting cycle.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

• Appointing a professional third party administrator, currently Aon

• Having in place SLAs with the administrator that cover all core administration processes, including payments of benefits in respect of members and the transfers of assets into and out of the Scheme. The SLA target level and SLAs over the Scheme year are as shown below:

Case Type	**SLA Target in days**
AVC / DC	10
Data Change	10
Deaths	5
Divorce	10
General Enquiries	10
Retirement Quote	10
Retirement Settlement	5
Transfer Out – Quote	10
Transfer Out – Settlement	10
Subject Access Request	10
Other	10

Source: Aon

	SLAs
Q1 2023	92%
Q2 2023	80%
Q3 2023	86%
Q4 2023	85%

Source: Aon.

• Monitoring SLAs on a regular basis, and at least annually, as part of the review of management information provided by the administrator. The administrator also attends Trustee meetings where appropriate and the Trustees question and seek to understand the reasons for any dips in service levels, in order to identify any areas to make improvements.

• Obtaining an AAF internal controls audit report from the administrator each year. The last report received was dated 30/09/2023. The AAF internal control audit reports are referred to if the Trustees ask to see them or if the Scheme Administrators feel there is something to raise.

• Maintaining close working links between the in-house Human Resource and Payroll teams, along with the administrator.

• Monitoring the quality of the Scheme membership data held by the administrator on an ongoing basis.

• Maintaining and monitoring a risk register, which includes risks in relation to core financial transactions.

• Appointing a professional firm, RSM UK Audit LLP, to undertake an annual audit.

The Trustees consider that the requirements for processing core financial transactions have been met.

3. Member Borne Charges and Transaction costs, including Value for Members

As required by the Regulations, the Trustees are required to report on the charges and transaction costs of members' investments held in the Scheme and their assessment on the extent to which the charges and costs represent good value for members.

Charges

Charges are comprised of the Annual Management Charge ("AMC"), the annual fee charged by the investment managers for investing in a fund, as well as additional expenses. Together, these are known as the Total Expense Ratio (TER), which is the total cost of investing in the fund. The TER will be the same or higher than the AMC and includes any additional costs met by the fund – such as custody costs.

The Scheme's DC assets are currently invested in the Scottish Widows With-Profits Fund. The annual management charge of this fund is 0.875%. Due to the way in which With-Profits funds are structured, the fee is charged as an implicit fee within the funds. Furthermore, it is difficult to make a general statement as to the value to members, although when compared with comparator arrangements the fee appears high and is assessed as poor in the annual value for members assessment. For the projected illustrations, the costs and transaction charges used are 1.119%. The transaction costs used are an average of the transaction costs experienced over the past five years.

The Scottish Widows With-Profits Fund offers a capital guarantee and provides annual bonus payments, together with a terminal bonus payment upon contractual exit (for example, retirement at the Scheme's normal retirement age or death). The Trustees acknowledge that although the member may derive value from the guarantee and bonuses paid, further discussion is required with Scottish Widows to determine the costs and charges borne by the members of the Scheme.

Transaction costs

In addition to the investment managers' expenses included in the TER, investment funds are subject to other implicit costs, such as the investment managers' expenses associated with trading the underlying securities, including commissions and stamp duty. These expenses are not explicitly deducted from the fund but are captured by a reduction in investment returns.

The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding the calculation and disclosure of transaction costs, which comply with the updated Regulations. The Trustees fully support transparency of costs for members and have requested this information from Scottish Widows which has confirmed a transaction cost of 0.34% for the year to 31 December 2023.

The Trustees have made this information publicly available on the Company website as required by the Regulations.

The Trustees fully support transparency of costs for members. However, the key consideration for members is the performance produced net of fees and member outcomes at retirement and a cheaper fund does not necessarily deliver the best value for members.

Projected Pension Pot Illustration

Using the transaction cost data provided by Scottish Widows as at 31 December 2023, and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Pension savings value;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical member's pension savings, we have provided examples below.

	Scottish Widows With-Profits Fund	
Year	£500 pension savings with no charges incurred	£500 pension savings with charges incurred
1	£509	£503
3	£527	£509
5	£545	£515
10	£595	£531
15	£648	£548
20	£707	£565
25	£771	£582
30	£841	£600
35	£917	£619
40	£1,000	£638
45	£1,091	£658

Notes – Scottish Widows With-Profits Fund
Projected pension savings are shown in today's terms
Inflation increases are assumed to be 2.5% p.a.
Starting pension savings is assumed to be £500
The Scottish Widows With-Profits Fund offers a capital guarantee and a guaranteed investment return on retirement of 4% p.a. after charges. The impact of annual or terminal bonuses has not been considered.
All Scheme members are deferred therefore no allowance has been made for future contributions
Costs and transaction charges are assumed to be 1.119% p.a.

The Scottish Widows illustration above is based on the guaranteed value, demonstrating how this will increase by 4% p.a. after costs and charges. The Scottish Widows With-Profits Fund provides a guaranteed return of 4% p.a. up to each member's normal retirement age, alongside annual bonus payments and a terminal bonus payment . This amount is only guaranteed if accessed at a contractual exit (for example, retirement at the Scheme's normal retirement age or death). If a member retires before normal retirement age or transfers out, they will most likely not receive the guaranteed value.

Net Return on Investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduce new requirements for trustees of 'relevant' occupational pension schemes.

Since 1 October 2021, trustees of all relevant pension schemes, regardless of asset size, have been required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges.

The tables below set out annualised net performance for the 1 Year, 5 year and 10 year periods for the Scheme's arrangements.

	Annualised returns to December 2023 (%)		
Fund	1 year	5 years	10 years
Scottish Widows With-Profits Fund	5.3	3.5	5.2

Source: Scottish Widows

Value for Members

The Trustees are required to assess the extent to which the Scheme delivers value for members across three key prescribed areas:

Assessment area	Type of assessment
Costs and charges	Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs.
Net investment performance	Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges.
Governance and administration	Standalone assessment of the Scheme's governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; trustee knowledge and understanding; member communications; and management of conflicts of interest.

The Trustees have carried out a value for member assessment as at 31 December 2023. The conclusions of this assessment are set out in the table below whilst recognising providing a comparison between a With-Profits Fund and three larger DC arrangements is challenging.

Assessment area	Type of assessment
Costs and charges	The Trustees have assessed the Scheme as offering poor value from a costs and charges perspective, relative to the three comparator schemes. However, as mentioned earlier, the Scheme's DC assets are currently invested in the Scottish Widows With-Profits Fund which has an annual management charge of 0.875% p.a. Due to the way in which With-Profits funds are structured, any fee is charged as an implicit fee within the fund, and it is difficult to make a general statement as to the value for members.
Net investment performance	The Trustees have assessed the Scheme as offering poor value from a net investment performance perspective, relative to the three comparator schemes.

	The Scheme's net investment returns have been lower than those of default funds within the comparator arrangements over the long term (five years). However, the defaults available through the comparator schemes differ substantially from the Scheme's investments. The With Profits Fund offers 'guarantees' and 'bonuses' to form its reported returns, and comparators do not offer this type of fund. This has resulted in performance of the comparators generally being higher than that of the Scheme's investments over the long run.
Governance and administration	The Trustees have assessed the Scheme as offering reasonable value from a governance and administration perspective
Overall	Overall, considering all three areas set out above, the Trustees have assessed the Scheme as offering poor value for members relative to the comparators. However, it is important to consider the specific nature of a With Profits Fund, which includes potentially valuable guarantees, therefore the Trustees have provided further details below to provide wider context.

Each With-Profits fund offers different terms and guarantees and hence will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific With-Profits fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of With-Profits funds is not sufficiently alike to enable relative assessments based on past or potential performance.

Payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of 'smoothing'.

'Smoothing' is an additional comfort factor within With-Profits funds. In years when investment performance is high, some of the return is held back to 'top-up' returns when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the payout relative to the underlying investment performance of the assets, thereby reducing investment risk for the individual investor and providing a steadier pattern of return. Insurers are required to stipulate that the payout in the event of early disinvestment will fall within a specified percentage of the underlying share of the assets attributable to the specific investor. Note, the specified ranges are targets and are not guaranteed.

Finally, With-Profits investments may be subject to a Market Value Adjustment, which means that it is very difficult to predict whether a member will suffer an exit penalty on transfer out to another arrangement.

Assessing Value for Money of a With-Profits fund is also directly related to an individual's attitude towards, and capacity for, investment risk, as well as their individual circumstances. A member may find comfort in the fact that a With-Profits fund provides guarantees; whether that is a guaranteed pension, investment return or capital security. Therefore, we consider it inappropriate to reach a general conclusion on value for money from the With-Profits arrangement for all members based on the prescribed approach, as this will vary greatly by member.

4. Trustee Knowledge and Understanding ("TKU")

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

Trustee training is of high importance to the good running of the Scheme. The Trustees acknowledge how vital it is that they maintain their knowledge of pension law, trust law, investment principles and are conversant with the Scheme documentation including the Trust Deed and Rules, SIP and Scheme policies.

Training

In order to maintain this high level of knowledge, the Trustees have procedures and policies in place:

- Trustees have individually or collectively undertaken the training modules from the Pensions Regulator's site that are relevant to DC schemes;

- Trustees undertake additional training to ensure that they keep up to date with changes in legislation, current issues and the latest developments relating to DC schemes. Specific training undertaken during the Scheme year includes GMP Equalisation training;

- All training activities are recorded in meeting minutes. The Trustees have agreed to maintain a training log going forward;

- Trustee training is considered regularly to determine any specific training and development needs, training sessions are then planned accordingly by the Scheme secretary and with support from the investment advisors, as and when required; and

Over the course of the Scheme year, the Trustees have demonstrated their continuous commitment to learning by carrying out training at each meeting on a topic that they feel is topical at the time.

The following training was held during the Scheme year:

- Triennial actuarial valuation including assumptions and employer covenant review
- GMP equalisation method feasibility reminder of key points
- Single Code of Practice
- Valuation assumption changes and impact on initial results
- CETV basis review

Trustees Induction

There is not currently an induction process in place as the current Trustees have been in their positions for a number of years. When a new Trustee is appointed, the Trustees look into relevant induction training at this point.

Examples Demonstrating TKU

The Trustees undertook a number of activities over the past year, which demonstrates how they have a working knowledge of pension and trust law and funding and investment principles. These activities include:

- The current Trustee board has been in place for a number of years and has had training at various Trustee meetings. The Trustees have agreed to have training at the regular meetings, as and when deemed necessary;
- The Risk Register is reviewed every year and methods to mitigate the risks are discussed. This demonstrates that the Trustees hold relevant knowledge on DC specific internal controls and the regulatory requirements; and
- At the regular Trustees meetings held over the year, the Scheme's advisors reported on forthcoming changes to regulations, their potential impact on the Scheme, and the actions required to ensure compliance. In doing so, the Trustees remained informed about changes to pension law and their duties in relation to those laws. This demonstrates the Trustees have knowledge and understanding of Pension and Trust law.

Using Advisors

The Trustees believe that the best run schemes use the combined skill and knowledge of both the Trustees and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:

- The Trustees' professional advisors attend their formal meetings; and

- The Trustees receive briefings from their advisors on all legislative and regulatory developments at each meeting.

Assessing Effectiveness

The Trustees understand that the knowledge and professional advice available needs to be used effectively in order for the Trustees to act properly. The examples below demonstrate the actions that have been taken to ensure this is the case:

- The Trustees undertake ongoing training both within their regular meetings and, when necessary, externally, to keep abreast of relevant developments;

- The Trustees regularly review their training needs;

- The Trustees also receive advice from professional advisors and the relevant skills and experience of those advisors is a key criterion when evaluating or selecting new advisors; and

- The Trustees undertake to complete The Pensions Regulator's Trustee Toolkit, as updated from time to time.

Trustee meetings typically occur each quarter and minutes are taken and then approved at the next meeting. Advisers are invited to all meetings, as required. The meetings are in relation to both Defined Benefit and Defined Contribution matters.

The Trustees demonstrate a diversification of skills, as well as breadth and depth of pension knowledge, primarily based on their roles within the Company, covering areas of finance and investments and legal experience.

I confirm that the above Statement has been produced by the Trustees to the best of their knowledge.

Signature: …………………………………………….

Name:

Position: Chair of the Trustees

Date: July 2024