# The Allen & Overy Pension Scheme
**Registration Number: 10108297**

Trustee’s Annual Report and Financial Statements
For the Year Ended 31 December 2021

# Contents

# Trustee and Advisers

## Trustee and Advisers

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|---|---|
| **With Profits AVCs Investment Managers** | Prudential Assurance Company Limited<br>Stirling FK9 4UE<br><br>Aviva Life & Pensions UK Limited<br>Six Hills Way<br>Stevenage SG1 2WH |
| **Investment Advisory Services** | Aon Solutions UK Limited<br>122 Leadenhall Street<br>London EC3V 4AN |
| **Scheme Actuary** | Darren Charles FIA (Aon Solutions UK Limited)<br>122 Leadenhall Street<br>London EC3V 4AN |
| **Independent Auditors** | PricewaterhouseCoopers LLP<br>1 Embankment Place<br>London WC2N 6RH |
| **Bankers** | Lloyds Bank plc<br>49 High Street<br>Canterbury<br>Kent CT1 2SE<br><br>Lloyds Bank plc (from 22.11.2021)<br>25, Gresham Street<br>London EC2V 7HN |
| **Legal Adviser** | Sacker & Partners LLP<br>20 Gresham Street<br>London EC2V 7JE |
| **Scheme Administrator** | Capita Pension Solutions Limited<br>PO Box 555<br>Stead House<br>Darlington<br>DL1 9YT |
| **Life Cover Insurers** | American International Group Limited<br>58 Fenchurch Street<br>London EC3M 4AB<br><br>Legal & General Assurance Society<br>One Coleman Street<br>London EC2R 5AA |

# Chair's Review

This review sets out a summary of the main events having an impact on the Scheme.

Although the Coronavirus continued to be disruptive over the course of 2021, I am pleased to report that the Trustee continued to ensure that it was business as usual for the Scheme, both in terms of the day-to-day operations as well as the Trustee's efforts to continually review, monitor and improve the Scheme.

In 2020, the Trustee reviewed the DB investment strategy to explore whether a similar level of expected return could be achieved with a strategy that is more efficient from a risk/return and income perspective. The review highlighted that, whilst the overall current investment strategy remains fit for purpose in terms of achieving the target return, there was scope for improvement by replacing underperforming mandates. The Trustee consulted with the Employer and an updated strategy was agreed.

Over 2021, the first part of the implementation of the updated investment strategy was completed; this involved a rebalance of the Scheme's assets. Following the year end the second and final part of the implementation was completed. This involved the full redemption from the Insight Bonds Plus 400 mandate and an investment into the Adept 18 – Sustainable Multi-Asset Credit Fund.

In respect of the DC section, at the end of 2020 the Trustee agreed to soft-close the Pooled Property Fund and make available the Standard Life (SL) ASI Global Real Estate Institutional Pension Fund based on the advice given by its investment advisers. These changes were implemented in June 2021. Information on the new SL ASI Global Real Estate Institutional Pension Fund can be found on the Abrdn website, here: https://www.abrdn.com/en/allenovery/fund-centre/literature-page.

Additionally, the Trustee, with the support of its investment advisers, implemented a number of changes to the Lifecycle Strategies (which included the primary default arrangement) as part of its ongoing commitment to review the Investment options available to members through which DC and AVC benefits are provided:

- Replacing the allocation to the SL Global Equity 50:50 Tracker Pension Fund within the DC Lifecycle strategies with a combination of the SL Overseas Tracker Pension Fund (95% allocation) and the SL Vanguard FTSE UK All Share Index Pension Fund (5% allocation).
- Removal of the Multi-Asset Funds from the "Accumulation Phase" of each strategy (the period leading up to 15 years before a member's Planned Retirement Age), so that members are now fully invested in global equities during that period.
- Extending the "Transition Phase" so that members start to de-risk 15 years from their Planned Retirement Age rather than 10 years prior.

In addition to the changes stated above, the Annuity Lifecycle Strategy's allocation to the SL UK Fixed Interest 60:40 Pension Fund has been replaced with the SL Index Linked Bond Pension Fund, which was already utilised within the Annuity Lifecycle Strategy.

The above changes were successfully implemented in November 2021. Further information about the Lifecycle Strategies can be found on the Allen & Overy Scheme website:

https://www.myallenoverypension.com/investment/AOInvestLifecycleSwitching.asp

**J Parr**
Chair

Date: 25 July 2022

# Trustee's Report

The Trustee of The Allen & Overy Pension Scheme has pleasure in presenting its annual report together with the financial statements for the year ended 31 December 2021.

## Scheme Management

### The Scheme

The Allen & Overy Pension Scheme ("the Scheme") is an occupational pension scheme established under an irrevocable trust dated 30 December 1983 and is governed by a Definitive Trust Deed and Rules which is available for inspection on request to Claire Perusko at the address on page 2. An outline of the Scheme's benefits is found on the Scheme website, www.myallenoverypension.com. The Scheme is a hybrid pension arrangement covering both defined benefit (DB) and defined contribution (DC) sections.

### The Trustee and its Directors

The current Trustee is Allen & Overy Pension Trustee Limited ("the Trustee"). The right of appointing and removing Directors of the Trustee is determined by the company's Articles of Association. The current directors of the Trustee are shown on page 2 of this document.

The Board of Directors of the Trustee of the Scheme normally comprises six Directors. As at 31 December 2021 it comprised three Employer Nominated Trustee Directors (N Bowden, P Watson and J Parr) and three Member Nominated Trustee Directors (L Thompson, P Regan and G Fraser). Member Nominated Trustee Directors are elected for a period of three years. The Trustee Directors are all members of the Scheme with the exception of J Parr and N. Bowden.

### Trustee Training

All Trustee Directors are provided with comprehensive training opportunities through external courses. Training for new Trustee Directors includes Defined Benefit and Defined Contribution training. In addition, training on topical issues during the year was organised for all Trustee Directors where a need was identified.

### Financial Statements

The financial statements included in this report are the accounts required by the Pensions Act 1995. They have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of that Act.

### Increases of Pensions

Pension payments were increased at 1 January 2021 by 1.3% (2020: 1.7%) for pensions earned before 23 September 1996 and by 0.5% for pensions earned after 23 September 1996. These were based on the rise in the Consumer Price Index (CPI) over the year to September 2020. This was pro-rated for new pensioners in the year.

Deferred pensions have been increased in accordance with statutory requirements. No discretionary increases were made to Scheme pensions by the Trustee or the Employer.

# Trustee's Report

## Scheme Management

### Risk Register

A Risk Register has been created and is reviewed periodically by the Trustee. The purpose of the Risk Register is:

- to highlight the scope of risk to which the Scheme is exposed from the Trustee's perspective;
- to rank those risks in terms of likelihood and impact; and
- to identify management actions that are either currently being taken, or that are believed should be taken, in order to mitigate the identified risks.

### Actuarial position

The actuarial position of the Scheme, which takes into account the obligations for the Defined Benefit section, is dealt with in the Report on Actuarial Liabilities which can be found on pages 41 and 42.

### Brexit

EU leaders agreed to an extension of Article 50 and the UK left the EU on 31 January 2021. It is likely that there will be long-term and short-term ramifications of the decision. The Trustee continues to monitor developments, and, if needed, the Trustee will take professional advice and consider the impact on the investment portfolio.

### Covid-19

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a global health emergency on the 30 January 2020, caused disruption to businesses and economic activity which has been reflected in fluctuations in global investment markets.

The Covid-19 pandemic brings into focus various risks faced by all pension schemes. The Trustee has been in regular discussion with its advisers over the period to monitor whether any specific actions were necessary or advisable. It has also been able to monitor the performance of the Scheme's assets and liabilities over the period. The Trustee acknowledges that the current situation is constantly evolving, and will continue to receive regular comprehensive updates from their advisers, administrators and investment consultants.

The Trustee is satisfied that its advisers implemented adequate business continuity plans to minimise the risk of disruption to the on-going provision of all relevant services to the Scheme. The Trustee considered the liquidity of the investment portfolio and concluded that payment of pension and member transactions (e.g. retirements, transfers) could continue as normal given the liquidity present.

Given the wider impact of the pandemic, the Trustee has worked with its advisers to consider the strength of the covenant provided by the Scheme's Principal Employer. At this time, the Trustee remains comfortable that the covenant is sufficient to continue to support the Scheme and has not implemented any changes to funding or investment strategy as a result of this review.

# Trustee's Report

The Trustee does not consider that any of the matters noted above give rise to material uncertainties that may cast significant doubt on the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Membership and Beneficiaries

| | Active Members | Employed Defined Benefit Early Leavers | Deferred Members | Pensioners | Total |
|---|---|---|---|---|---|
| **Defined Contribution Section** | | | | | |
| Totals at 31/12/2020 | **1,765** | **-** | **3,652** | **-** | **5,417** |
| Adjustments | **(6)** | **-** | **6** | **-** | **-** |
| New Members | **284** | **-** | **-** | **-** | **284** |
| Leavers – preserveds | **(268)** | **-** | **268** | **-** | **-** |
| Uncrystallised funds pension lump sums | **-** | **-** | **(12)** | **-** | **(12)** |
| Deaths | **(1)** | **-** | **(2)** | **-** | **(3)** |
| Retirements | **(1)** | **-** | **(1)** | **-** | **(2)** |
| Transfers out | **-** | **-** | **(133)** | **-** | **(133)** |
| **Totals at 31/12/2021 for Defined Contribution** | **1,773** | **-** | **3,778** | **-** | **5,551** |
| **Defined Benefit Section** | | | | | |
| Totals at 31/12/2020 | **-** | **-** | **482** | **292** | **774** |
| Adjustments for late notifications | **-** | **-** | **(5)** | **(1)** | **(6)** |
| Deaths | **-** | **-** | **(2)** | **(5)** | **(7)** |
| Retirements | **-** | **-** | **(12)** | **12** | **-** |
| Commutations | **-** | **-** | **-** | **(1)** | **(1)** |
| New dependants | **-** | **-** | **-** | **3** | **3** |
| Transfers out | **-** | **-** | **(5)** | **-** | **(5)** |
| **Sub totals at 31/12/2021** | **-** | **-** | **458** | **300** | **758** |
| **Defined Benefit Early Leavers** | | | | | |
| Totals at 31/12/2020 | **-** | **67** | **54** | **18** | **139** |
| Adjustments | **-** | **-** | **(1)** | **1** | **-** |
| Retirements | **-** | **(3)** | **(5)** | **8** | **-** |
| **Sub totals at 31/12/2021** | **-** | **64** | **48** | **27** | **139** |
| **Totals at 31/12/2021 for Defined Benefit** | **-** | **64** | **506** | **327** | **897** |
| **Overall totals at 31/12/2021** | **1,773** | **64** | **4,284** | **327** | **6,448** |

As at 31 December 2021, there were 32 (2020: 31) dependant pensioners in the Defined Benefit section. Included in the above are 17 (2020: 16) members who receive pensions through annuities directly from the insurer.

Employees who, under auto enrolment, opt out of becoming a member of the Scheme are included in "New members" above and then shown under "Leaver – refunds or no benefit" when they have opted out within the required period.

Employed DB Early Leavers are members of the DB Section who were in pensionable service when the Scheme closed to accrual on 31 December 2006.

# Trustee's Report

## Investment Matters

### Overview

The Trustee, with the assistance of its appointed investment consultants, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

### Investment managers

The names of those who have managed the Scheme's investments during the year are listed on pages 2 and 3. The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

The managers' duties include the consideration of environmental, social and governance (ESG) as well as ethical issues in the selection, retention and realisation of investments as well as voting and corporate governance in relation to the Scheme's assets. The Trustee has reviewed each of the investment managers' policies on these issues. The Trustee believes that the policies adopted by the managers are consistent with its own views.

### Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles which has been updated in May 2022 and includes the Trustee's policy relating to ESG investment and the exercise of the rights attaching to investments. Any member may request a copy. This Statement sets out the investment strategy and may change from time to time according to advice received from the investment manager or consultants.

See https://www.myallenoverypension.com/Library/AOLibMemComm.ASP

### Custodial arrangement

The DB assets and the DC assets are invested in unitised pooled investment vehicles where the manager makes its own arrangements for the custody of the underlying investments.

### Employer-related investments

The law restricts the extent to which the assets of the Scheme can be invested in investments relating to the Employer. At 31 December 2021, the Scheme did not hold any employer-related investments (2020: £nil) either directly or indirectly through pooled investment vehicles.

# Trustee's Report

## Defined Benefit section

## Investment strategy

The Trustee's aim is to invest the assets of the Scheme with the objective that the benefits promised to members are provided as far as can reasonably be expected. In setting the investment strategy, the Trustee first considered a range of asset allocations modelled by the investment consultants that they could adopt in relation to the Scheme's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy whilst maintaining a prudent approach to meeting the Scheme's liabilities.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant and the long term liabilities of the Scheme. The current strategy was set following written advice from the Trustee's investment advisers and the Trustee also consulted the employer regarding the change of strategy.

In setting the investment strategy, the Trustee has taken account of the Scheme's liability profile and has adopted a policy of holding 35.5% in assets which broadly match the liabilities. This takes the form of Liability Driven Investment (LDI) funds, which have the ability to invest in swaps and other hedging instruments. The remainder of the Scheme's assets are invested in a diversified portfolio of return seeking assets. The investment strategy was updated in May 2022 following the successful implementation of the updated investment strategy as agreed as a part of the 2020 strategy review. The changes included replacing the absolute return bond mandate with a multi asset credit mandate, increasing the target allocation to asset backed securities mandate and including it as part of the return seeking portfolio, and decreasing the target allocations for the diversified growth fund and LDI mandates.

**Performance to 31 December 2021**

**Scheme performance**

Overall, the Scheme is estimated to have delivered a positive return over the year to 31 December 2021 returning c.9.0%, which was ahead of the benchmark by c.1.3%. Over the three year period the Scheme returned c.11.6% p.a., which was ahead of the benchmark by c.1.0% p.a. Over the five year period the Scheme returned c.8.0% p.a., ahead of benchmark by c.0.5%.

The investment performance of the Scheme's investment managers over one, three and five year periods up to 31 December 2021 is shown below:

| | 12 Months | | 3 Year (p.a.) | | 5 Years (p.a.) | |
|---|---|---|---|---|---|---|
| | Scheme | Bench-mark | Scheme | Bench-mark | Scheme | Bench-mark |
| **Return Seeking Assets** | | | | | | |
| L&G World Equity | 21.8% | 22.0% | 18.9% | 19.1% | 13.0% | 13.1% |
| L&G World Equity GBP Hedged | 22.9% | 23.1% | 19.9% | 20.1% | - | - |
| BlackRock Diversified Growth | 5.0% | 0.1% | 8.1% | 0.4% | 6.0% | 0.5% |
| Insight Bonds Plus 400 | 1.2% | 0.1% | 0.4% | 0.4% | -1.1% | 0.4% |
| BlackRock UK Property | 16.6% | 19.1% | 5.4% | 6.2% | 6.7% | 7.0% |
| M&G Inflation Opportunities | 7.7% | 7.6% | 7.1% | 3.6% | 6.9% | 3.5% |
| Insight High Grade ABS | 1.6% | 0.1% | 1.8% | 0.4% | 1.9% | 0.4% |

# Trustee's Report

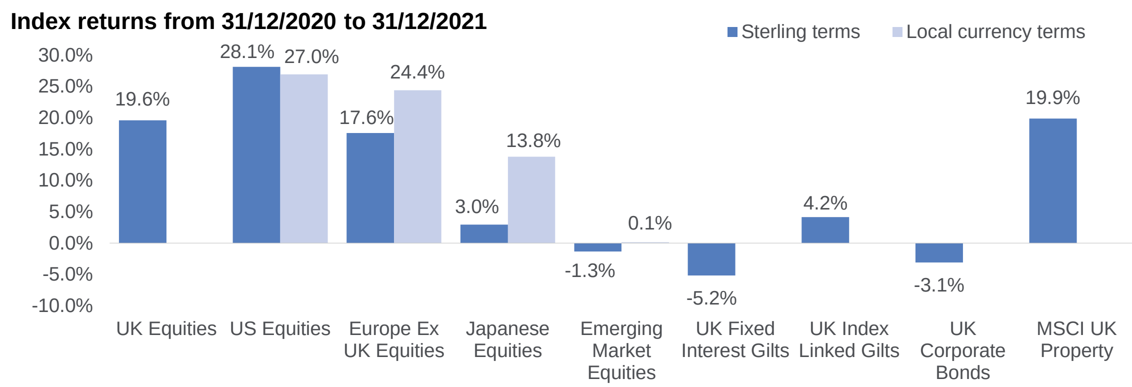
| | | | | | | |
|---|---|---|---|---|---|---|
| **Matching Assets** | | | | | | |
| Insight LDI Funds | 4.6% | 4.9% | 21.6% | 21.9% | 13.6% | 13.7% |
| Insight Liquidity Fund | - | - | - | - | - | - |
| L&G Cash | -0.1% | 0.0% | 0.2% | 0.3% | 0.2% | 0.3% |
| **Total Scheme** | **9.0%** | **7.7%** | **11.6%** | **10.6%** | **8.0%** | **7.5%** |

*Source: Managers, Aon*

*Notes:*

1. *One, three and five year returns have been provided for investments that have been in place for these periods.*
2. *All performance is shown in GBP, net of fees. Where net performance was reported by the fund manager, we have used it. Where gross performance was reported, an adjustment for fees has been made.*
3. *Total Scheme performance is calculated by Aon.*
4. *Where investment has been for less than a year, no figures are shown.*

**Scheme Market Commentary: 12 months to 31 December 2021**




## Global Equities

Global equities generated strong positive returns over the last twelve months, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, the discovery of the new Covid-19 variants cast doubts over the prospect of global economic growth in 2021. Inflation rates worldwide continued to increase, as supply chain problems and rising wages persisted. This led to major central banks indicating the end of pandemic-era asset purchase programs and hinting at accelerated interest rate hikes to help ease persistent inflation. Yet, equity markets were able to shrug most of these concerns posting solid gains in 2021.

US equities posted the strongest local and sterling returns over the year, helped by their high exposure to large technology companies. UK equities were the second-best performing equity market in sterling terms over the last year. The UK's impressive vaccination program suppressed hospitalisations and deaths, and Brexit fears eased. The reopening of the global economy bolstered the UK's Energy and Industrials sectors during 2021.

The Scheme invests c. 75% of its equity holdings in the passively managed LGIM World Equity GBP Hedged fund and c. 25% of its equity holdings in the passively managed LGIM World Equity fund. The equity holdings marginally underperformed the benchmark over the year, returning 22.7% compared to a benchmark return of 22.8%.

# Trustee's Report

### UK Government Bonds

Optimism over global economic recovery in the light of several vaccine discoveries and stimulus packages drove global government bond yields higher at the beginning of 2021. However, in Q2 2021, yields fell back as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike expectations against the background of rising inflation and central bank indications that they were considering policy rate increases. However, longer-dated yields fell back in the fourth quarter due to heightened uncertainty surrounding Omicron. Short-dated yields began to factor in potential monetary policy changes and saw notable increases.

The Liability Driven Investment (LDI) portfolio managed by Insight which is designed to hedge a portion of the liabilities returned c.4.6% over the year.

### UK Property

UK commercial property returned 19.9% over the period, supported by an income return of 5.3% and a 13.9% increase in capital values. Depressed property prices were helped by the easing of lockdown restrictions.

The Scheme's property holding with BlackRock returned 16.6%, underperforming its IPD All Balanced Property Funds benchmark by 2.5%.

### Other Return Seeking Assets

Both the Scheme's absolute return managers delivered positive performance, with BlackRock returning 5.0% and Insight returning 1.2% over the year. Inflation opportunities manager M&G performed well, returning 7.7% in absolute terms.

## Defined Contribution section

The objective for the investment strategy of the DC Section of the Scheme is to provide members with an appropriate range of investment options depending on their retirement needs and appetite for risk.

15 individual funds are made available for members to invest in, covering a range of different asset classes and management styles. In addition to the 15 individual funds, members are also able to choose from three Lifecyle strategies. The Lifecyle Strategies consist of an accumulation phase, a transition phase (beginning 15 years from a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age). During the accumulation phase, the Lifecycle strategies invest in higher risk assets such as equities and diversified growth funds in order to give higher potential for growth. Over the transition phase and pre-retirement phase, the strategies gradually shift into lower risk assets in order to provide some protection to member's accumulated savings as they approach retirement.

The Multi-Asset Lifecyle Strategy is the primary default strategy for the DC Section of the Scheme which is designed to be suitable for those members who do not make investment decisions for themselves whilst providing maximum flexibility at retirement for members to take benefits as they choose, for example by transferring to a flexible income drawdown product.

An investment strategy review, including a review of the Multi-Asset Lifecycle Strategy (primary default arrangement), is undertaken at least every three years, or following any significant changes in the demographic profile of the Scheme members, which is in line with the Regulatory requirements.

# Trustee's Report

The last full investment strategy review, which included a review of the primary default arrangement, for the Scheme was completed on 12 September 2019. The review analysed the membership profile of the Scheme and took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of members in order to test alternative investment strategies. The analysis included multiple simulations of future economic and investment scenarios, and considered the various options members have regarding the way in which they draw their benefits in retirement. The Trustee took advice from its DC investment consultants, Aon, on all these aspects.

The Trustee, with the support of its DC investment consultants, revisited the 2019 strategy review during the Scheme year and agreed to make the following changes to the Lifecycle Strategies (which included the primary default arrangement):

- The allocation to the SL Global Equity 50:50 Tracker Pension Fund within the Lifecycle strategies was replaced by the SL Overseas Tracker Pension Fund (95% allocation) and the SL Vanguard FTSE UK All Share Index Pension Fund (5% allocation).
- Removal of the Multi-Asset Funds from the "Accumulation Phase" of each strategy, so that members are now fully invested in global equities during that period.
- The "Transition Phase" has been extended so that members start to de-risk 15 years from their Planned Retirement Age rather than 10 years prior.

In addition to the changes stated above, the Annuity Lifecycle Strategy's allocation to the SL UK Fixed Interest 60:40 Pension Fund has been replaced with the SL Index Linked Bond Pension Fund, which was already utilised within the Annuity Lifecycle Strategy.

The changes stated above were successfully implemented on 10 November 2021

**Investment risk disclosures for both sections**

Investment risks are disclosed in note 17 to the financial statements on pages 92 to 98.

**Defined Contribution Performance**

Fund performance figures are calculated net of annual management charge (excluding any rebates) over the stated periods, with income reinvested. Where any fund or benchmark is shown as '-' this indicates no data is available for that period.

# Trustee's Report

## Defined Contribution Performance

| **Fund Names**<br>***Fund Benchmark*** | **12 months to 31/12/2021 %** | **3 Years to 31/12/2021 %** | **5 Years to 31/12/2021 %** |
|---|---|---|---|
| Standard Life Global Equity 50:50 Tracker | 21.6 | 14.2 | 9.5 |
| *50% FTSE All-Share, 50% MSCI World ex UK Total Return Index* | *21.0* | *14.4* | *9.7* |
| SL Schroder Life Intermediated Diversified Growth (CR) | 7.5 | - | - |
| *UK Consumer Price Index (CPI) +5% p.a.* | *-3.1* | - | - |
| SL NinetyOne Diversified Growth (CR) | 4.0 | 6.5 | - |
| *(ABI) Mixed Investment 40%-85% Shares (Pen)* | *10.7* | *9.8* | - |
| SL Veritas Global Focus | 16.6 | 16.4 | 12.2 |
| *MSCI World Index (net)* | *22.9* | *19.2* | *12.9* |
| SL Majedie UK Equity | 18.0 | 7.8 | - |
| SL Vanguard FTSE All Share Index | 18.2 | 8.2 | 5.2 |
| *FTSE All Share (TR) Index* | *18.3* | *8.3* | *5.4* |
| Standard Life Overseas Equity Tracker | 25.0 | 20.1 | 13.6 |
| *MSCI World ex UK Total Return Index* | *23.6* | *20.6* | *14.1* |
| Standard Life UK Fixed Interest 60:40 | -4.7 | 5.2 | 3.7 |
| *60%iBoxx Sterling Non-Gilts, 40% FTSE British Govt > 15 yrs Indices* | *-4.7* | *5.2* | *3.7* |
| Standard Life Corporate Bond | -2.8 | 4.8 | 3.5 |
| *Markit iBoxx GBP Non-Gilts Total Return Index* | *-3.1* | *4.5* | *3.2* |
| Standard Life Index Linked Bond | 2.9 | 7.3 | 4.7 |
| *FTSE Actuaries UK Index-Linked Gilts Over 5 Years Total Return GBP Index* | *4.2* | *7.7* | *5.0* |
| Standard Life Deposit & Treasury | -0.1 | 0.2 | 0.2 |
| *Sterling overnight interbank average Index* | *0.1* | *0.3* | *0.4* |
| Standard Life Pooled Property | 24.8 | 7.0 | 6.6 |
| *MSCI/AREF UK Property Funds Index – All balanced fund index, weighted average* | *19.1* | *6.2* | *7.0* |
| SL Vanguard Emerging Markets Stock Index | -1.9 | 8.4 | 7.6 |
| *MSCI Emerging Markets Total Return (net) GBP Index* | *-1.6* | *8.7* | *7.9* |
| Standard Life ASI Global Real Estate Institutional | 12.4 | 6.3 | 4.8 |
| SL Vanguard UK Investment Grade Bond Index | -3.2 | 4.5 | 3.1 |
| *Bloomberg Barclays GBP Non-Government Float Adjusted Bond Total Return Index* | *-3.0* | *4.6* | *3.3* |

# Trustee's Report

## Implementation Statement

Implementation Statement for the period covering 1 January 2021 to 31 December 2021

### Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement called an Implementation Statement ("IS") which outlines the following:

- A summary of the changes made to the Statement of Investment Principles ("SIP") over the Scheme year;
- Evidence on how the Trustee has fulfilled the objectives and policies included in the SIP over the Scheme year;
- Description of the voting behaviour by or on behalf of the Trustee (including the most significant votes cast) during the Scheme year and state any use of third-party provider of proxy voting services.

This is the second IS that the Trustee has prepared and covers the information set out above for The Allen & Overy Pension Scheme (the "Scheme"). This statement covers the Scheme year from 1 January 2021 to 31 December 2021.

### Executive summary

Based on the activity carried out over the year by the Trustee and its investment managers, the Trustee is of the opinion that its policies have been implemented effectively in practice. The Trustee notes that, based on the information provided, the investment managers employed are exercising their respective voting and engagement duties (where applicable) to a satisfactory level.

Despite all managers having robust stewardship policies in place, some managers were unable to provide examples of significant votes or engagements carried out over the Scheme Year at a fund specific level (though in some cases were able to provide firm-level examples). The Trustee expects improvements in disclosures over time in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

### 1. Changes to the Statement of Investment Principles over the Scheme year

The Trustee has a separate Statement of Investment Principles for each of the DB and DC Sections of the Scheme.

For the DB Section, the Trustee undertakes a review of the SIP at least annually with support from its investment consultants. For the DC Section, the Trustee has a policy to review the SIP at least every three years, or without delay after any significant change ininvestment policy or member demographics.

The DC Section SIP was updated in May 2022 to reflect the various investment changes made to the lifecycle strategies on 12 November 2021. Further information on the specific changes made to each lifecycle strategy can be found in the annual Chair's Statement located here

https://www.myallenoverypension.com/library/AOLibMemComm.asp.

The DB section was updated in May 2022 following the successful implementation of the updated investment strategy as agreed as a part of the 2020 strategy review.

The latest version of the SIPs are available for members to view via the 'Library' section of the Allen & Overy website: https://www.myallenoverypension.com/Library/AOLibMemComm.asp

# Trustee's Report

## 2. Meeting the objectives and policies outlined in the SIP

This section details how the investment policies and objectives as stated in each of the DB and DC Section SIPs have been adhered to and achieved in practice over the course of the Scheme year. The objectives and policies have been grouped by theme; full details are outlined in the SIPs on the A&O website.

### A. DB Section

#### I. Strategy

The current investment strategy set out in the SIP was set following a detailed review and advice from the Trustee's investment consultant, Aon, and following consultation with the Employer regarding the change of investment strategy.

In the second half of 2020, a strategy review was carried out to explore whether a similar level of expected return could be achieved with a strategy that is more efficient from a risk/return and income perspective. The review highlighted that whilst the overall current investment strategy remains fit for purpose in terms of achieving the target return, there is scope for improvement by replacing underperforming mandates.

Over 2021 and early 2022 the implementation of the updated investment strategy was completed. This was undertaken in two phases. First, the Scheme's asset allocation was rebalanced, with the net redemption proceeds being utilised by Insight as a part of the Scheme's matching assets. This was completed in May 2021. The second phase, which involved the full redemption from the Insight Bonds Plus 400 Fund and the investment into the Aon Sustainable Multi-Asset Credit Fund, was completed in January 2022.

#### II. Implementation and ongoing monitoring

The Trustee has appointed Aon as its investment consultant in relation to the funds within the Defined Benefit Section. The Trustee has a number of direct investments in pooled funds managed by the investment managers. Aon provides formal advice on the suitability of the direct investment, under Section 36 of the Pensions Act 1995, ahead of investment and provides ongoing monitoring of the suitability.

Investment monitoring takes place on a quarterly basis with monitoring reports being provided to the Trustee by its investment consultant Aon. These reports monitor the performance, strategic asset allocation and risk management of the Scheme's investments, covering a number of different objectives and policies set out in the SIP. The report includes:

- Absolute performance and performance relative to the benchmark over the quarter, one year and three year periods;
- Asset allocation relative to the strategic asset allocation;
- An overview of Aon's ratings of the investments and detailed commentary for any major developments; and
- Economic market review and outlook.

Outside of this Scheme year, the Trustee has also monitored the Scheme's exposure to Russia following the introduction of UK sanctions against Russia in response to its invasion of Ukraine on 24 February 2022. With support of its investment consultants, the Trustee found that the following funds that the Scheme invests in have direct exposure to Russia; LGIM Global Equity

Fund (both the currency hedged and unhedged versions), BlackRock DDGF and Aon Sustainable Multi-Asset credit. The Trustee found that the Scheme's direct exposure to Russia was small relative to the total assets invested and has reduced significantly since the onset of the Russia/Ukraine crisis. The Trustee is comfortable that the Scheme's fund managers have and continue to comply with sanctions imposed on Russia.

**III. Risk**

Please refer to "Implementation and ongoing monitoring" for further details on how risks within the Scheme are monitored and reported. In addition to the regular monitoring, the Trustee reviews the risk within the investment strategy as part of the investment strategy review, carried out triennially alongside the actuarial valuation.

**IV. Arrangements with asset managers**

The Trustee is supported by Aon in monitoring the activity of Scheme investments. As noted in "Implementation and ongoing monitoring" the Trustee receives investment monitoring reports on a quarterly basis, which include Aon's ratings of the investments.

Aon's Investment Manager Research ("IMR") Team is responsible for researching, rating and monitoring investment managers across all asset classes. This includes some aspects on the manager's alignment with Trustee policies generally, for example, whether the manager is expected to achieve the performance objective and a review of their approach to ESG issues. IMR meets with each of the buy-rated managers on a quarterly basis to receive an update on the portfolio, performance and any major developments. Following discussions with the manager, it reviews each sub-component rating and overall rating. In addition to regular monitoring, triennially IMR performs a deep dive review of every buy-rated manager. It also meets with managers on an ad-hoc basis if there are significant changes to any monitoring points which raise concern (changes to investment team, poor performance, etc.).

Although IMR does not rate the Aon Sustainable Multi-Asset Credit Fund, it rates the underlying managers in the Fund.

**V. Cost transparency**

The Trustee is in the process of gathering the cost information of its investments to provide a consolidated summary of all the investment costs incurred for the investments over 2021. This will include a breakdown of the costs into their various component parts, including the costs of buying and selling assets (transaction costs) incurred by the underlying managers. This disclosure was produced in line with the requirements of the Competition and Markets Authority on fiduciary management cost disclosures.

The Trustee will receive and review this report on an annual basis. The 2021 report was scheduled to be discussed at the Q2 2022 meeting.

## B. DC/AVC Section

The Defined Contribution ('DC') section of the Scheme invests via an insurance policy held with Standard Life. The majority of the Additional Voluntary Contributions ('AVCs') are also invested via this policy. Legacy AVC policies remain in place with Aviva and Prudential, although they are no longer open to new investments. Investment in the insurance contracts is under the control of the Trustee.

# Trustee's Report

The core DC arrangement has a primary and secondary default option:

- Multi-Asset Lifecycle: the primary default option for members of the Scheme who do not make an active investment choice
- Standard Life Deposit and Treasury Pension Fund: this secondary default option was created in April 2020 when the Standard Life Pooled Property Fund was suspended and ceased accepting new contributions due to the Covid-19 pandemic. Rather than leaving future contributions intended for the Property Fund uninvested, the Trustee decided to redirect these contributions into the Standard Life Deposit and Treasury Fund, until the suspension of the Property Fund was lifted.

The Trustee applies the policies set out in the SIP to all default arrangements.

**I. Implementing and Monitoring a suitable Investment strategy**

Over the course of the Scheme year, the Trustee has provided members the opportunity to invest in three lifecycle strategies (including the default Multi-Asset Lifecycle strategy) and 15 self-select funds that cover a range of asset classes, enabling members to construct a portfolio to meet their individual investment objectives and constraints.

Over the 12 months to 31 December 2021, the Trustee has monitored the individual funds against these objectives via quarterly investment monitoring reports received from the Scheme's DC investment consultants. The quarterly investment monitoring reports included information on both the short and long-term performance of each fund relative to their objective as well a red, amber or green ('RAG') status to indicate whether funds were delivering in line with their objectives.

Additionally, Aon's Investment Manager Research ("IMR") team meets the underlying managers on a regular basis to assess any changes in the investment staff, investment process, risk management and other manager evaluation factors to ascertain whether the overall rating assigned to the fund remains appropriate and the manager remains suitable to manage the assets. The manager's awareness regarding potential ESG risks in the investment strategy is also considered as part of monitoring and assigning the overall rating to the fund.

Over the course of the Scheme year, there were no changes to the Managers as a result of the above monitoring.

In addition to the quarterly investment monitoring reports, the Trustee undertakes an in-depth review of the Scheme's investment strategy at least every three years. The last review was completed in September 2019 and included a review of the strategy, individual fund performance and consideration of the needs of members to ensure ongoing suitability. While some changes were considered as part of the review, the Trustee decided at that time to retain the default strategy in its current form. This decision was primarily based on the fact that the Trustee and sponsoring employer were in the process of reviewing the structure through which DC benefits are provided to employees and was supported by the fact that the Trustee was comfortable the current default strategy remained suitable for members and continued to meet its aims and objectives.

As the review of the DC structure was still ongoing, the Trustee requested that its DC investment consultant revisit the review of the investment strategy and this was completed at the end of Q1 2021. Following this review, the Trustee agreed to make several changes to the Lifecycle strategies, which it believed would improve members' retirement outcomes. These changes were implemented in November 2021 and further information on this can be found in the annual Chair's DC Governance Statement:

Outside of this Scheme year, the Trustee has also monitored the Scheme's exposure to Russia following the introduction of UK sanctions against Russia in response to its invasion of Ukraine on 24 February 2022. With support of its investment consultants, the Trustee has found that only two of the funds that the Scheme invests in have direct exposure to Russia; the SL Schroder Intermediated Diversified Growth Pension Fund and the SL Vanguard Emerging Markets Stock Index Pension Fund. The Trustee found that the Scheme's direct exposure to Russia was small relative to the total assets invested and has reduced significantly since the onset of the Russia/Ukraine crisis. The Trustee is comfortable that the Scheme's fund managers have and continue to comply with sanctions imposed on Russia.

**II. Ensuring reasonable costs and charges**

The Trustee has established a cost-benefit analysis framework for the DC Section in order to assess whether the member borne charges deliver good value for members. This assessment forms part of the annual Chair's Statement and includes consideration of both explicit and implicit charges and a comparison versus costs in the wider market as well as wider benefits DC members receive through the Scheme. The 2021 review is currently ongoing with the outcome to be published upon completion of the 2021 statement (expected before 31 July 2022) but the 2020 assessment (completed in 2021) concluded that the DC Section and AVCs offered good value for members. More detail can be found in the Chair's Statement via the Scheme's website.

**III. Reviewing investment consultants**

Each year, the Trustee sets objectives for their DC investment consultants in order to aid ongoing oversight and monitoring. During the Scheme year, the Scheme's DC investment consultants were assessed against a range of objectives, outcomes and performance measures. The Trustee deemed them to be performing in line with the majority of its expectations and needs over the course of 2020. However, the Trustee did identify one specific area that required some minor improvements from the DC investment consultants, which they addressed over 2021.

The Trustee is currently in the process of reviewing the performance of its DC investment consultants over the course of 2021 and 2022.

**IV. Risk**

Please refer to section 2.B.I for further details on how risks within the Scheme are monitored and reported. In addition to the regular monitoring, the Trustee reviews the risks within the investment strategy as part of the triennial Investment Strategy Review.

During the prior scheme year, the Trustee considered the possible impact of the Covid-19 pandemic on the Scheme and took appropriate steps to ensure that the Scheme continued to operate effectively during this time. Specifically, the Trustee:

- Ensured the Scheme administrator and other providers were able to continue to support the Trustee in the management and operation of the Scheme uninterrupted;
- Updated the Scheme's risk register to account for additional risks arising from pandemic; and
- Successfully moved to virtual quarterly meetings, a measure that has been maintained over the course of the 2021 Scheme year. This has allowed the Trustee to monitor the operational aspects of the Scheme and continue to apply appropriate Scheme governance.

# Trustee’s Report

## C. Joint DB and DC/AVC Policies

Some policies and objectives the Trustee has in place are consistent across the Scheme’s DB and DC Section SIPs. This predominantly relates to policies and objectives on Responsible Investment.

### I. Responsible Investment: Financially Material Considerations

The Trustee recognises that “ESG” risk factors, including climate change, may negatively impact the value of investments held if not fully understood and evaluated properly. In order to take these risks into account, the Trustee reviewed ESG ratings for the funds used by the Scheme as part of the quarterly investment monitoring reports received over the Scheme year for both the DB and DC Sections of the Scheme. The ESG ratings focus on a set of principles and whether the fund manager's overarching approach has successfully integrated ESG factors within those principles.

For the DC Section of the Scheme, investment opportunities with an explicit ESG commitment are currently being considered.

The Trustee has included ESG-related risks, including climate change, on the Scheme’s risk register as part of ongoing risk assessment and monitoring.

### II. Responsible Investment: Stewardship – Voting and Engagement

The Trustee, with the help of its investment consultants, collates and reviews the voting and engagement activity of each individual fund manager over the course of the Scheme’s year as part of the production of the annual Implementation Statement. Details of this review can be found in Section 3 of this Statement.

### III. Responsible Investment: Members' Views and Non-Financial Factors

For the DB Section, in setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

For the DC Section, the Trustee believes that it has provided a range of investment options that enable members to construct a portfolio that satisfies their investment objectives and constraints based on analysis of the Scheme’s membership profile (further information given in Section 2.B.I).

Regarding member views on ESG matters (including non-financially material considerations), the Trustee’s policy is to give due consideration to any member feedback received. Over the Scheme year, the Trustee received queries from DC members regarding the ESG credentials of the current fund range and whether an ESG-focused fund would be made available for members to invest in. The Trustee and its DC investment consultant have identified a potentially suitable ESG-Fund and intends to add this fund once it is made available on the Abrdn platform.

## 3. Manager Voting and Engagement

**Summary**

The Trustee invests in pooled funds, and as such has delegated responsibility for the selection, retention and realisation of investments to the Scheme's investment managers in whose funds it invests. As part of the production of this statement, the Trustee – supported by its investment consultants – review the voting

# Trustee's Report

engagement activities carried out on its behalf by the Scheme's investment managers. Where the stewardship of managers is found to be falling short of the standards set out by the Trustee (exercising votes and engaging in order to create long-term financial value), the Trustee may take further action – for example by meeting with the manager in question or requesting that the Trustee's investment consultants engage on its behalf.

All of the Scheme's investment managers have provided commentary on their approach to voting, including the use of any proxy voting provider services (relevant for equity managers only) as well as their approach to engaging with underlying security issuers. The Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income and property investments, particularly for short-term money market instruments, liability driven investment ("LDI") and gilt investments.

Having reviewed the commentary provided by the investment managers, the Trustee believes the stewardship carried out on its behalf over the year to 31 December 2021 has been adequate, noting how the examples of votes provided by the majority of the Scheme's investment managers show the willingness and ability of the Scheme's investment managers to take proactive votes against management where appropriate (see Appendix 2 and 3).

However, not all managers were able to provide the necessary voting statistics on all funds at the time of writing this statement – the Trustee's investment consultants are continuing to request this information on the Trustee's behalf for inclusion in next year's statement.

Additionally not all managers were able to provide examples of significant votes cast or engagements carried out on its behalf. In these cases, the Trustee's investment consultant is reaching out to the managers to express expectations on improved transparency for future statements.

The Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustee continues to expect improvements over time as set out above, in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Further information can also be found in the appendices as follows:

- Appendix 1: Summary of manager voting and engagement policies (as provided by the investment managers)
- Appendix 2: Summary of voting statistics over the year to 31 December 2021
- Appendix 3: Examples of significant votes and engagements cast and carried out on behalf of the Trustee

# Trustee's Report

## Overview of investment manager voting and engagement policies

**Equity**

| **Section** | **Manager** | **Voting Policy** | **Engagement Policy** |
|---|---|---|---|
| DB | Legal & General Investment Management ("LGIM") | • Use Institutional Shareholder Services ("ISS") Services to assist with voting decisions and support in-house analysis. No decisions are outsourced.<br>• Define significant votes as those that are high profile, subject to controversy, those with significant investor interest or those linked to an LGIM engagement campaign | Six-step approach:<br>1. Identify the most material ESG issues,<br>2. Formulate the engagement strategy,<br>3. Enhancing the power of engagement,<br>4. Public Policy and collaborative engagement,<br>5. Voting, and<br>6. Reporting to stakeholders on activity.<br>It's top five engagement topics are climate change, remuneration, diversity, board composition and strategy. |
| DC | Standard Life | • Delegates voting and engagement to underlying asset managers (BlackRock and Vanguard – both also employed directly by the Trustee to manage Scheme assets). | |
| DC | Veritas Asset Management (Veritas) | • Use ISS Services to execute voting decisions with internal analysts and portfolio managers making final voting decisions. | Engage through a four-milestone system:<br>1. Raising the issue with the company;<br>2. Receiving acknowledgement from the company that its concerns are valid;<br>3. Receiving confirmation from the company that it is developing a plan to address the issue; and<br>4. Receiving confirmation from the company that the plan is implemented, and the objective is delivered.<br>May choose to sell a holding if there is insufficient progress on engagement. |
| DC | • Majedie | • Use ISS Services for voting research and placing votes.<br>• Will generally vote the same as ISS if this also aligns with management recommendations. If there is a divergence, the Majedie fund manager will take an executive decision.<br>• Determine significant votes as those for a company / holding within the top 5 or top 10 holdings in the fund by weight and/or where there is disagreement between management and ISS' voting recommendation for a proposal. | • Engage using a variety of tools with the level of engagement being driven by Majedie's assessment of the materiality of the issues a company faces.<br>• Will escalate on a case by case basis and will report on engagements and votes quarterly. |

# Trustee's Report

| | | | |
|---|---|---|---|
| DC | Vanguard* | Use ISS platform for execution of votes.<br>• Receives research from a variety of proxy providers including but not limited to ISS, Glass Lewis ("GL") and Equilar.<br>• Vanguard have not outlined their criteria of what constitutes a significant vote. | Engages based on four principles:<br><br>1. Board Composition;<br>2. Oversight of strategy and risk;<br>3. Executive remuneration; and<br>4. Shareholder rights. |

**These policies also apply to the fixed income investments held by the Scheme.*

**Multi-Asset**

| **Section** | **Manager** | **Voting Policy** | **Engagement Policy** |
|---|---|---|---|
| DB | BlackRock | • Use ISS platform to cast votes based on internally-developed proxy voting guidelines, pre- vote engagements, research and situational factors for each company<br>• Publish quarterly voting bulletins for specific detailed votes based on criteria such as level of public attention and impact of financial outcome<br>• Publish bulletins of what it deems to be a significant vote, defined as votes where the issues involved are likely to be high-profile and therefore of interest to its clients and other stakeholders. | Engagement priorities include:<br><br>1. Board quality<br>2. Climate and natural capital;<br>3. Strategy purpose and financial resilience;<br>4. Incentives aligned with value creations; and<br>5. Company impacts on people. |
| DC | Schroders | • Receive research from ISS and IVIS ahead of general meetings. Feeds into wider portfolio of information including company reporting, engagements and internal views<br>• Cast votes using ISS voting platform<br>• Considers 'significant votes' as those cast against company management recommendations. | Engages with companies to:<br><br>1. Seek additional understanding,<br>2. Share its expectations,<br>3. Or, where necessary, seek chance that will protect and enhance the value of investments. |

## Trustee's Report

| | | | |
|---|---|---|---|
| | Ninety One | • Use ISS research to produce custom research reports including vote recommendations. Individual investment teams then reach their own voting decision based on their investment philosophy.<br>• Significant votes are defined as those which have significant client, media or political interest, material holdings, those of a thematic nature and significant corporate transactions that have a material impact on the future company performance | • Action is led by the Engagement and Voting team who are a support for the investment teams. Investment teams are expected to account for the risks they are exposed to and then consider engagement with companies to reduce risk and ideally enhance value over time.<br>• Prioritise 'strategic' engagements to reduce risk.<br>• If engagements are ineffective or companies are not committed to change, Ninety One may divest. |

**Fixed Income**

| Section | Manager | Engagement Policy |
|---|---|---|
| DB | Insight | • Engage as bondholders, counterparties and shareholders with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors.<br>• Prioritises climate risk analysis and stewardship.<br>• Supports climate-focused groups that help to improve risks from issuers, including inadequate disclosure, and supports campaigns that promote environmental themes.<br>• Participates in industry groups as part of its work managing systemic climate risks. |
| DB | M&G | • Engage with the aim of protecting and enhancing long-term value of assets.<br>• Prioritisation of M&G's resources are based on a range of factors, including the materiality of an issue and the size of M&G's holding. |

# Trustee's Report

## Appendix 1 – Manager Voting and Engagement Policies

## Equity

### DB Section

The Scheme invested in the following equity funds over the year to 31 December 2021:

| Manager | Fund Name |
|---|---|
| Legal & General Investment Management ("LGIM") | ▪ Global Equity Fund<br>▪ Global Equity Currency Hedged Fund |

### Legal & General Investment Management ("LGIM")

Voting Policy

LGIM uses proxy voting service provider Institutional Shareholder Services ("ISS") to execute votes electronically and for research, which augments LGIM's own research and proprietary ESG assessment tools. LGIM states that it does not outsource any part of the voting decisions to ISS. It has put in place a custom voting policy with ISS that applies to all markets globally, which seeks to uphold what it considers to be the best practice standards companies should observe. LGIM retains the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with companies have provided additional information.

Engagement Policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues;
2. Formulate the engagement strategy;
3. Enhancing the power of engagement;
4. Public Policy and collaborative engagement;
5. Voting; and
6. Reporting to stakeholders on activity.

LGIM takes an active role in stewardship and considers it a duty to be accountable for its clients' assets and ensures it upholds the highest corporate governance standards. LGIM monitors several ESG subjects and conducts engagement on various issues. Its top five engagement topics are climate change, remuneration, diversity, board composition and strategy.

All decisions are made by LGIM's investment stewardship team and in accordance with its relevant corporate governance, Responsible Investment and Conflicts of Interest policy documents, which are reviewed annually. The corporate governance team meets with the active equity and fixed income team on a bi-weekly basis to share information gained from analysis and engagement activity. This is a forum for raising and discussing particular investment and ESG concerns, insights and updates.

LGIM's engagement activities are driven by ESG professionals and its assessment of the requirements in these areas seeks to achieve the best outcome for all its clients. More information can be found on LGIM's engagement policy on www.lgim.com.

LGIM was unable to provide engagement examples at a fund level. The Trustee's Investment Manager Aon has engaged with LGIM on this topic to encourage it to report on its engagement activities in line with its peers. Aon and the Trustee expect to see improvements in LGIM's stewardship reporting in the next reporting year.

# Trustee's Report

## DC Section

The DC Section of the Scheme invested in the following equity funds over the Scheme Year;

| Manager | Fund Name |
|---|---|
| Standard Life | ▪ Global Equity 50:50 Tracker Pension Fund<br>▪ Overseas Tracker Pension Fund |
| Veritas | ▪ Global Focus Pension Fund |
| Majedie | ▪ UK Equity Pension Fund |
| Vanguard | ▪ FTSE UK All Share Index Pension Fund<br>▪ Emerging Markets Stock Index Pension Fund |

### Standard Life

Voting Policy

The DC Section of the Scheme invests in funds via the Standard Life platform. The underlying managers of the Standard Life funds are BlackRock and Vanguard. Where voting rights exist, these asset managers (BlackRock and Vanguard) will vote on clients' behalf. Clients of Standard Life can't vote directly with companies that it has exposure to; - this responsibility lies with the asset managers who manage the fund.

Standard Life ensures that all of its strategic partners have a voting policy in place and vote in line with this policy. Part of its due diligence exercise is to make sure that this policy reflects its own philosophy and its Approach to Responsible Investing document. Standard Life is currently working with its main asset management partners to develop stewardship reports which will let clients know how the asset managers voted related to the assets they ultimately own.

Engagement Policy

As stewardship activity is delegated to asset managers, Standard Life doesn't engage directly with the companies it invests in on ESG issues. Standard Life expects all its asset managers to incorporate ESG considerations when they engage with these companies and to make sure they meet Standard Life's ESG requirements. Standard Life engages with its asset managers, looking for evidence of how it has engaged with the firms that it chooses to invest in.

### Veritas Asset Management ("VAM") – Global Focus Pension Fund

Voting Policy

Veritas use the proxy advisory firm ISS to construct a customised screen for various ESG issues which incorporates the Association of Member Nominated Trustees ("AMNT") Red Lines, on a best endeavours basis. The AMNT Red Line Voting Policy contains 29 guidelines covering topics associated with ESG. Should any of the 29 red lines be breached by a voting proposal, the instruction is to either vote against management or explain why not. In addition, ISS provide vote recommendations based on its benchmark policy. This ensures guidance is provided for ballots that are not captured by Veritas's ESG voting policy.

Engagement Policy

Veritas monitors the progress of its engagements by setting itself objectives at the outset and measuring progress against four milestones:

- Raising the issue with the company;
- Receiving acknowledgement from the company that Veritas's concerns are valid;
- Receiving confirmation from the company that it is developing a plan to address the issue; and,
- Receiving confirmation from the company that the plan has been implemented and the objective delivered.

Where it makes insufficient progress on an engagement, Veritas will reassess its options and may choose to sell its holding. When Veritas chooses to sell following an attempt at engagement, it informs the company in writing of its reasons for doing so.

## Majedie – UK Equity Pension Fund

Voting Policy

Majedie uses ISS for voting research and places its electronic votes through ISS ProxyExchange. Majedie is guided by a set of Voting Principles, which can be accessed via: https://www.majedie.com/wp-content/uploads/Proxy-Voting-Principles.pdf. Majedie votes at all meetings it is eligible to do so and takes voting research and platform services from proxy provider ISS.

In terms of reaching a voting decision, where a management recommendation and Majedie's proxy voting research provider's recommendation are in alignment, Majedie will be minded to vote the same, except where items concern approval of political donations and expenditure, where Majedie will be minded to vote against. Where there is divergence, the relevant Majedie fund manager will make a decision on how to vote. Majedie also scrutinises, in particular, the recommendations of management and ISS in the UK small cap space.

Engagement Policy

Majedie, sees engagement as a critical component of its investment process in helping the manager understand their investments, key issues and potential risks companies might face going forward. Majedie will engage with the underlying companies it invests in via meetings, phone calls and written communications as part of its investment process, with the level of engagement being driven by its own assessment of the material issues a company faces.

When Majedie engages it will always explain the reason why it is asking for action to be taken, when it expects the request to be completed by, what part of the group it would expect to fulfil its request and what subsequent steps/phases will likely be once the initial request is satisfied. Majedie will escalate engagements as required on a case by cases basis – this may involve breaking requests down into multiple, smaller stepsor speaking to multiple company representatives.

Majedie report on its engagements, including any subsequent votes, in its quarterly reports to clients and in their annual Responsible Capitalism report which is published on its website.

# Trustee's Report

## Vanguard

Voting Policy

Vanguard utilises the Institutional Shareholder Services (ISS) ProxyExchange platform for the execution of its votes. It has developed a robust custom policy that ISS has implemented on its behalf along with rigorous controls and oversight mechanisms to ensure the accurate application of the Vanguard policy. Vanguard consults a wide variety of third-party research providers and its own internal proprietary databases. Vanguard then analyses the various issues and ballot measures in conjunction with its Proxy Voting Guidelines and other relevant data to reach its own independent decisions. The Investment Stewardship team uses a variety of research from well-known providers, such as ISS, Glass Lewis, and Equilar, as well as a number of smaller research providers.

Vanguard does not rely on recommendations from proxy advisors for its voting decisions. Vanguard believe it is valuable to understand all sides of an issue before casting a vote on behalf of a Vanguard fund. As such, proxy advisers can be a useful data aggregator which serves as one of the many inputs that Vanguard's Investment Stewardship team uses to reach independent voting decisions on each funds' behalf.

Engagement Policy

Vanguard's approach to investment stewardship is framed by four global principles that it considers foundational to effective corporate governance. These Principles are reflected in its Investment Stewardship team's public advocacy, engagement activity and proxy voting, to safeguard and promote long-term value creation by Vanguard fund portfolio companies. The four global principles are:

- Board Composition
- Oversight of strategy and risk
- Executive remuneration
- Shareholder rights

# Multi-Asset Funds

## DB Section

The DB Section of the Scheme invested in the BlackRock Dynamic Diversified Growth Fund over the year to 31 December 2021.

Voting Policy

BlackRock's proxy voting process is led by its Investment Stewardship team. Voting decisions are made by the Investment Stewardship team with input from investment colleagues. Blackrock's voting decisions are informed by its internally developed proxy voting guidelines, its engagements with companies, and research on each underlying company. BlackRock reviews its proxy voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

BlackRock subscribes to research from the proxy advisory firms ISS and Glass Lewis. BlackRock uses the research and its own analysis to identify companies where additional engagement would be beneficial. BlackRock does not routinely follow the voting recommendations of its proxy voting advisers.

# Trustee's Report

<u>Engagement Policy</u>

BlackRock considers engagement to be at the core of its stewardship efforts and that it enables BlackRock to provide feedback to companies and build a mutual understanding about corporate governance and sustainable business practices. Each year, BlackRock sets engagement priorities to focus on, such as governance and sustainability issues that it considers to be most important for companies and its clients.

BlackRock's priorities reflect an emphasis on board effectiveness and the impact of sustainability-related factors on a company's ability to generate long-term financial returns. BlackRock Investment Stewardship ("BIS") team's stated key engagement priorities include board quality, climate and natural capital, strategy purpose and financial resilience, incentives aligned with value creation and company impacts on people.

More information can be found here: https://www.blackrock.com/corporate/literature/publication/blk-stewardship-priorities-final.pdf

BlackRock was unable to provide fund level engagement examples. The Trustee's Investment Manager Aon has engaged with BlackRock on this topic to encourage it to report on its engagement activities in line with its peers. Aon and the Trustee expect to see improvements in BlackRock's stewardship reporting in the next reporting year.

## DC Section

The Scheme invested in the following multi-asset funds over the year to 31 December 2021;

| Manager | Fund Name |
|---|---|
| Schroders | Intermediated Diversified Growth Pension Fund |
| Ninety One | Diversified Growth Pension Fund |

# Trustee's Report

## Schroders

Voting Policy

Schroders uses proxy voting services providers ISS and the Investment Association's IVIS to provide research ahead of general meetings. In addition to its own voting policies, Schroders uses company reporting, company engagements, country specific policies, engagements with stakeholders and the views of portfolio managers and analysts to reach a voting decision. Schroders' own research (conducted by its financial and ESG analysts) is also integral to the final voting decision. For contentious issues, Schroders' Corporate Governance specialists seek the views of the relevant analysts and portfolio managers to better understand the corporate context. Schroders reviews its voting practices and policies during ongoing dialogue with its portfolio managers.

Schroders considers most significant votes to be those against company management. Schroders will oppose management if it believes that it is in the best interests of shareholders and clients. However, as an active fund manager, Schroders usually looks to support the management of the companies that it invests in.

Engagement Policy

Schroders engages with companies to seek additional understanding, share its expectations or to seek change that will protect and enhance the value of investments for which it is responsible. Schroders focuses on issues that it sees as material to the value of a company's shares or debt instruments. The governance structure and management quality are also a key focus for Schroders' engagement discussions.

Schroders generally begins an engagement with a process to enhance its understanding of the company and to help the company to understand Schroders' position on the topic. It tracks engagement progress over time to ensure it can systematically monitor outcomes.

Schroders' Multi-Asset team monitors the engagement and voting activity of the underlying holdings of the fund in partnership with the Schroders' Sustainable Investment team. Schroders' engagements can take 2-3 years from initial engagement to conclusion. Investment decisions are made by the underlying fund manager based on engagement activity.

## Ninety One

Voting Policy

Ninety One utilise the third-party proxy voting services of ISS for research recommendations based on its internal voting policy. Ninety One considers and discusses the internal voting policy with the investment teams that hold the issuer to make a decision in the best interest of shareholders (which may differ from ISS & management recommendations).

Ninety One publicly disclose their voting decisions on a quarterly basis on their website: www.ninetyone.com/en/investment-expertise/stewardship/proxy-voting-results

Significant votes are defined as those which have significant client, media or political interest, material holdings, those of a thematic nature (e.g. climate change) and significant corporate transactions that have a material impact on future company performance (e.g. a merger).

Engagement Policy

Ninety One's engagement policy objective is to preserve and grow the real value of the assets entrusted to it by clients over the long-term. It seeks to engage with companies to both challenge and support them on their journeys to becoming more sustainable. Ninety One takes a targeted approach to engagement, prioritising strategic engagements where it can influence an issuer to reduce risk. It believes strategic engagements enhance its understanding of sustainability risks and can provide the opportunity to improve outcomes. Where Ninety One believes engagement is ineffective or companies are not committed to change, it may disinvest and reallocate its capital to more suitable investments.

# Trustee’s Report

Further information can be found in Ninety One’s Annual Sustainability Report: https://ninetyone.com/en/united-kingdom/how-we-think/investing-for-a-world-of-change/sustainable-investing/invest/sustainability-report

## Fixed Income and Property

The Trustee acknowledges that the concept of stewardship may be less applicable with respect to its fixed income and property investments, particularly for short-term money market instruments, liability driven investment (“LDI”) and gilt investments. The section below details the information that has been gathered on the Scheme’s fixed income manager engagement policies.

### DB Section

The Scheme was invested in the following fixed income funds over the year to 31 December 2021;

| Manager | Fund Name |
|---|---|
| BlackRock | ▪ BlackRock UK Property Fund |
| LGIM | ▪ Cash Fund |
| Insight Investment Management Limited ("Insight") | ▪ Bonds Plus 400<br>▪ High Grade ABS<br>▪ LDI Funds<br>▪ Liquidity Plus Fund |
| M&G Investments ("M&G") | ▪ M&G Inflation Opportunities Fund |

The DB Section of the Scheme invested in the BlackRock UK Property Fund over the year to 31 December 2021. These assets were managed in line with the same engagement policy laid out above in the Multi-Asset section. Similarly, the assets held with LGIM are managed in line with the same engagement policy laid out above for the Scheme’s equity investments.

#### Insight

Insight engages on industry and regulatory issues that have implications for its clients and the wider market. Insight's credit analysts regularly meet with issuers to discuss ESG related issues. Insight states that its engagements inform the credit analysts’ views of companies and provide a platform for increased transparency on ESG issues and ongoing engagement to change company behaviour where appropriate.

The credit analysts identify the engagement issues relevant for each issuer. If Insight does not already have regular meetings with a company’s management, its investment teams will request a meeting with them. Where this is not possible, or if Insight deems additional action to be needed, it may consider raising issues with the company’s broker. If Insight does not receive a response from the issuer when it engages with it then Insight will lead a wider collaborative initiative, via the Principles for Responsible Investment (“PRI”) or with other investors, to achieve greater influence over the issuer. Insight is also involved in long-term initiatives such as Climate Action 100+ (CA100+).

# Trustee's Report

## M&G

M&G believes that the long-term success of companies is supported by effective investor stewardship, high standards of corporate governance and transparent engagement policies. It believes that if a company is run well, it is more likely to be successful in the long run. M&G undertakes all investment stewardship engagements with the goal of protecting and enhancing the long-term value of client's assets. M&G is committed to being transparent on how it conducts investment stewardship activities in support of long-term sustainable performance for its clients.

The prioritisation of M&G's resources is based on a range of factors, including the materiality of an issue and the size of M&G's holding. Its focus will be on issues that are likely to be material to the value of the company's shares.

Further information can be found in M&G's engagement policy at mandgplc.com

## DC Section

The Scheme was invested in the following fixed income funds through the reporting period;

| Manager | Fund Name |
|---|---|
| Standard Life | ▪ Corporate Bond Fund<br>▪ UK Fixed Interest 60:40 Pension Fund<br>▪ Index Linked Bond Pension Fund<br>▪ Standard Life Deposit and Treasury Fund<br>▪ Pooled Property Fund |
| Vanguard | ▪ UK Investment Grade Bond Index Pension Fund |

These investments are all managed in line with the same engagement policies laid out in the equity section above.

In addition to this, Vanguard's actively managed fixed income mandates are supported by a global team of credit analysts that develop independent risk assessments and investment opinions for each fixed income issuer. The team seeks to understand the material implications of ESG risk as part of an overall independent risk assessment and to determine whether or not market pricing adequately reflects those risks. Focus is placed on consistently applying an ESG integration framework to Vanguard's investment decision-making process and working with issuers to better understand risks and how improvements can be made to address them.

## Appendix 2 – Voting Statistics

The table below shows a high-level summary of the voting statistics for each of the relevant funds used within the Scheme over the year to 31 December 2021. This data has been provided by the underlying managers via the Pension and Lifetimes Savings Association ("PLSA") template.

At the time of writing, data was not available for the LGIM Global Equity and Global Equity (Currency Hedged) Funds . The information has been requested by the investment consultants on behalf of the Trustee with the aim of including in next year's statement.

The Standard Life Overseas Tracker Fund and Standard Life Global Equity 50:50 Tracker Fund consist of a number of underlying Vanguard funds. Voting statistics for these underlying funds have been included in the table below.

| Asset Class | Section | Fund | % of resolutions voted on for which the fund was eligible | Of the resolutions voted on, % voted against management | % of resolutions abstained |
|---|---|---|---|---|---|
| Equity | DB | LGIM - Global Equity Fund | *99.8%* | *18.8%* | *0.7%* |
| | | LGIM - Global Equity Fund (Currency Hedged) | *99.8%* | *18.8%* | *0.7%* |
| | DC | Veritas Global Focus Fund | 100.0% | 9.0% | 0.0% |
| | | Vanguard Pacific ex Japan stock Index Fund* | 100.0% | 3.0% | 0.0% |
| | | Vanguard US Equity Index Common Contractual Fund* | 99.0% | 2.0% | 0.0% |
| | | Vanguard FTSE UK All Share Index* | 99.0% | 0.0% | 0.0% |
| | | Vanguard Japan Stock Index Fund* | 100.0% | 0.0% | 0.0% |
| | | Vanguard FTSE Developed Europe ex UK Equity* | 98.0% | 7.0% | 0.0% |
| | | Majedie UK Equity Fund | 99.8% | 3.7% | 0.3% |
| Multi-Asset | DB | BlackRock Dynamic Diversified Growth Fund | 100.0% | 6.0% | 1.0% |
| | DC | Schroder Diversified Growth Fund | 94.0% | 6.0% | 0.00% |
| | | Ninety One Diversified Growth Fund | 95.0% | 7.1% | 2.0% |

*These underlying funds make up the Standard Life Overseas Tracker and Standard Life Global Equity 50:50 Tracker Fund

# Appendix 3 – Examples of significant votes cast and engagement

Below are examples of significant votes and engagements that have been cast and carried out on behalf of the Trustee as provided by the Scheme's investment managers. For the purposes of this statement, the Trustee has focused on the funds/managers used within the DB section, within the default strategy of the DC section and the most popular DC self-select fund (the Veritas Global Focus Fund) but is able to provide further examples for other funds if needed. Definitions of significant votes are aligned with each individual fund manager's own definition of what constitutes a significant vote.

**LGIM Global Equity Fund**

Voting

In April 2021, LGIM voted against management recommendation to elect Director Alex Gorsky at Johnson & Johnson.

LGIM's policy advocates for the separation of the roles of Chief Executive Officer ("CEO") and board Chair. It believes the two roles to be substantially different, requiring distinct skills and experiences. Since 2015, it has supported shareholder proposals seeking the appointment of independent board Chairs. Since 2020, LGIM has been voting against all combined board Chair/CEO roles.

Although the resolution was passed, LGIM will continue to engage with Johnson & Johnson and publicly advocate its position on this issue whilst monitoring company and market level progress.

Engagement (Firm level)

Over 2021, LGIM engaged with a number of companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi and parasites change over time and no longer respond to medicines making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to the uncontrolled release of antimicrobial agents into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies to understand if they were aware of the issue of antimicrobial resistance and if they planned to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

LGIM believes it is important to promote an enhanced and standardised approach to antimicrobial resistance through influencing the regulatory landscape. As such, it is also working with its peers in the Investor Action on Antimicrobial Resistance initiative.

**Insight**

Engagement

In Q2 2021, Insight engaged with Together Financial Services ("TFS"), a specialist mortgage and secured loan provider. Insight's analyst had a one-to-one meeting with senior management at TFS to discuss its responses to Insight's ESG questionnaire. The two areas of weakness where Insight focused discussions, were environmental and social impact issues.

Regarding environmental issues, Insight believed that the senior management had not carried out adequate monitoring of risks or stress testing the business for future risks. The company also didn't incorporate any climate risks on its loans beyond standard business practice.

Regarding social impact, Insight would like to see TFS doing more on ensuring borrowers have flexible terms with a change in circumstances. The policies regarding 3rd party servicers also need to be better governed with complaints independently evaluated.

Overall, while Insight view TFS as a well-managed business from an ESG perspective, improvements could be made. Insight continues to engage with TFS on these items and will monitor progress on how TFS makes improvements on environmental and social impact issues flagged.

**Standard Life**

Standard Life was unable to provide voting and engagement examples for the period to 31 December 2021. The Trustee recognises that Standard Life delegates stewardship activities of its assets to the underlying fund managers (Vanguard and BlackRock) and notes that these managers have been able to provide examples directly. The Trustee also recognises that Standard Life is currently working with its main asset management partners to develop stewardship reports which will let clients know how the asset managers voted related to the assets they ultimately own.

That said, the current level of transparency requires improvement, and the Trustee's investment consultant is engaging with Standard Life on this topic to encourage it to report on its engagement activities in line with its peers. Aon and the Trustee expect to see improvements in Standard Life's stewardship reporting in the next reporting year.

**Vanguard**

Voting

Vanguard was unable to provide fund level significant voting examples for the period to 31 December 2021. However, examples of significant votes cast at a firm-level are included in their semi-annual stewardship report available online here: https://global.vanguard.com/documents/investment-stewardship-semiannual-report.pdf

One example includes a vote in favour of a shareholder proposal put forward by Oxfam at Sanderson Farms (a US poultry producer) that asked the board to prepare a report on the company's human rights due diligence process. The pandemic heightened investor concerns about the working conditions in Sanderson Farms' facilities and Vanguard's analysis identified gaps in the company's human rights disclosure. Vanguard believed the proposal was appropriate and gave the company sufficient flexibility to address the enhanced disclosures as it sees fit and as a result, voted against management recommendations in supporting the proposal.

Engagement

At a firm level, Vanguard engaged with Monster Beverage, a U.S. consumer staples company, to discuss its lack of racial or ethnic diversity in the boardroom and opportunities to enhance board disclosure and recruitment practices.

In the engagement, company leaders acknowledged the lack of racial or ethnic diversity on the board and said it planned to focus on this. Vanguard encouraged Monster company leaders to consider disclosing the board's composition by gender, race, and ethnicity, as well as the overall board diversity strategy. While the nominating committee charter did mention that diversity would be considered in the selection of candidates,

the lack of current transparency into the approach and the current underrepresentation suggested an opportunity to better demonstrate the board's attentiveness to this matter. Vanguard also encouraged the board to look beyond its members' own networks and purposely consider candidates who bring diverse perspectives to the boardroom.

Vanguard appreciated Monster's willingness to engage and hear Vanguard's perspectives. Vanguard values receptiveness to shareholder feedback as a corporate governance best practice and intend to stay engaged as a long-term investor.

**Veritas Global Focus Fund**

Voting

In November 2021, Veritas voted for a proposal that would require Microsoft Corporation (a multi-national technology company) to report on its gender/racial pay gap. This vote was against management recommendations. The rationale behind Veritas's vote was that Veritas believed the vote was warranted as shareholders could benefit from the median pay gap statistics that would allow them to compare and measure the progress of the company's diversity and inclusion initiatives. Ultimately the voted was not passed.

Veritas consider this vote significant since it was a vote against management.

Engagement

In 2021, Veritas engaged with ThermoFisher Scientific, an American provisioner of scientific instruments, due to concerns with a breach of human rights under the UNGC principles.

Veritas had contacted the company to express concerns about continued reports (in the New York Times 2018 and 2020) that ThermoFisher Scientific DNA sequencing kits and equipment were apparently still being used by the police in Xinjiang, China, for surveillance of the population and hence playing a role in potential human rights abuse in the region.

The company had responded in writing to tell Veritas they no longer sold such kits in the region (since 2018) and had strict terms in place with distributors; - however, Veritas asked for a call to probe more around the governance of this issue and potential impacts. Critically on the call, it was asserted that the kits in question did not have the implied utility - that they alone would not be able to identify the ethnic origin of an individual as the 2020 article had implied. This technology in conjunction with other methods, such as facial recognition technology, would be able to do so with high probability but the ThermoFisher kits alone could not. Veritas were given access to the retraction published in the New York Times on 19th June 2020 and as such were satisfied to complete the engagement with no further follow up required.

**BlackRock Dynamic Diversified Growth Fund**

Voting

In April 2021, BlackRock voted against Rio Tinto management proposals to approve the 2020 remuneration report for UK & Australian law purposes. Following the destruction of the Juukan Gorge, the former CEO and two other senior executives left the company. The former CEO received total remuneration under his exit package of £7.2m in 2020 and may receive sizeable payments over the next few years as well.

Although the entire 2020 Short-Term Incentive Plan (STIP) award was forfeited (the policy allowing a maximum of 200% of base salary, about £2.2 million) and a £1 million malus adjustment was applied to reduce the amount to which the former CEO was paid under the 2016 Long-term Incentive Plan (LTIP), the “eligible leaver" treatment resulting from the termination by mutual agreement will still allow for the vesting of the outstanding LTIP awards, prorated for time and performance.

When executive compensation practices or structures are not aligned with its expectations, BlackRock’s Investment Stewardship team may vote against proposals to approve remuneration reports. BlackRock appreciated that the amount to which the CEO was eligible under the LTIP was partly explained by the positive performance of the company since 2016. However, BlackRock did not consider it appropriate to support the remuneration report given the social and reputational harm done by the destruction of the Juukan Gorge, for which the CEO is held partially responsible, and the exit package that did not reflect the severity of the damage done.

Neither of the proposals passed, with the UK resolution receiving 61.6% of votes against and the Australian resolution receiving 60.8% of votes against the resolution. The Board acknowledges that the executive pay outcomes in relation to the tragic events at Juukan Gorge are sensitive and contentious issues and the Remuneration Committee committed to engage further with shareholders on the issue. Further information can be found at https://www.blackrock.com/corporate/literature/press-release/blk-vote-bulletin-rio-tinto-may-2021.pdf.

<u>Engagement</u>

BlackRock’s Investment Stewardship team engaged with British science-focussed manufacturing and research company, Oxford Instruments, on the lack of diversity on its board ahead of the company’s AGM in September 2021. The company has yet to reach the Hampton-Alexander target to have 33% representation of women and missed the 2020 target timeframe.

BlackRock’s Investment Stewardship team deems diverse and experienced board directors to be critical to the success of a company and long-term value creation. Oxford Instruments has since appointed an additional female board member as a Senior Independent Director and stated that it intends to reach the target by its 2022 AGM. Oxford Instruments has also expressed its intention to work with consultants and search firms who have signed the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice in order to improve its recruitment of diverse executives and directors.

BlackRock’s Investment Stewardship team intends to continue monitor the progress of the investee company as the company identifies and integrates new leadership in the months ahead.

**Schroders Diversified Growth Fund**

<u>Voting</u>

On 28 May 2021, Schroders voted against a resolution to approve Total SE’s Sustainable Development and Energy Transition. An overall vote against the strategy was given on the basis that parts of the emissions strategy did not appear ambitious, with the company having already reached short term targets, with other targets potentially allowing for overall expansion in emissions from oil and gas. The strategy also did not include any absolute reduction targets between 2030 and 2050 which Schroders consider to be best practice within the sector.

<u>Engagement Example (firm level)</u>

Schroder selected c. 50 banks from across Europe, North America and Asia for deeper analysis and engagement with on fossil fuel financing. Out of the 50 banks contacted, Schroders had met with 21 by the end of March 2021.

Following each engagement, Schroders highlighted three or four objectives for the banks to work on over the next 12 months. Examples included:

- Development of a commitment to align the bank's financing activities with the goals of the Paris Climate Agreement (a legally binding treaty on climate change to limit global warming to well below 2 degrees Celsius compared to pre-industrial levels).
- Reviewing the bank's fossil fuel policies in line with the latest science and/or good practice.
- Development of climate-related risk reporting.

For banks that have already made progress in these areas, Schroders' discussions focused on the robustness and evolution of their measurement and target-setting methodologies. Schroders state that it is still too early to assess the impact of these discussions, however it has had a good response from banks so far.

**Ninety One Diversified Growth Fund**

Voting

In May 2021, Ninety One voted against a shareholder proposal for a Human Rights Risk Assessment for the company The Home Depot, Inc., a home improvement retailer. This vote was in line with management. Ninety One believe a vote against was warranted since the company already reports on its policies, programs and oversight mechanisms concerning prison labour in its supply chain and it also recently updated it policy prohibiting this. Overall, the vote failed to pass.

Engagement

Over the period, Ninety One engaged with Sanhua Intelligent Controls ("Sanhua"), a manufacturer of controls and components for the heating, ventilation, air conditioning (HVAC) & refrigeration industry, regarding its carbon reporting to the CDP (formerly the Carbon Disclosure Project).

Ninety One identified CDP reporting as its first and most important engagement goal when it first invested in Sanhua, given its lack of sustainability information disclosure. Sanhua has never published a sustainability report before, therefore Ninety One focused its engagements on reporting to the CDP as the first step, which is less cumbersome than a comprehensive sustainability report. After a number of meetings, in April 2021 Ninety One had the chance to communicate its thoughts directly with the senior VP and board secretary of the company. This resulted in the set up of a working group to complete the CDP questionnaire.

As a result of the engagement, in July 2021, Sanhua submitted its CDP questionnaire for the first time. Ninety One were positively surprised by the speed of the progress and will continue to work with Sanhua to improve its disclosure.

Trustee's Report

# Other Matters

The information deals with matters of administrative routine.

### Transfer Values

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

### Taxation

The Scheme is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004.

### Problems and Complaints

To comply with the requirements of the Pensions Act 1995, the Trustee maintains a formal Internal Dispute Resolution Procedure. Scheme members and beneficiaries can take advantage of the procedure if they wish to complain about maladministration or dispute a question of fact or law relating to the Scheme. Details of the procedure can be obtained from Capita Pension Solutions Limited at the address shown on page 44 of the Annual Report. If the problem cannot be resolved using the Internal Dispute Resolution Procedure, The Pensions Advisory Service ("TPAS") (from April 2019, part of the Money & Pensions Service, formerly the Single Financial Guidance Body) is available to give free confidential advice to any member or beneficiary who has a problem in relation to the Scheme.

### MoneyHelper

The Money and Pensions Service (MaPS) was created in 2019 as a single body to bring together the services previously delivered by The Pensions Advisory Service (TPAS), the Money Advice Service and Pension Wise, providing information to the public on matters relating to workplace and personal pensions. With effect from 30 June 2021 MaPS has been re-branded as MoneyHelper but still offers all the same services.

MoneyHelper may be contacted at 120 Holborn, London, EC1N 2TD

Telephone: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

Website: https://www.moneyhelper.org.uk

### Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Terrace, Brighton, BN1 4DW Telephone 0345 600 7060 or via their website at www.thepensionsregulator.gov.uk

### Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU Telephone: 0800 731 0193 or via the website at www.gov.uk/find-pension-contact-details

# Trustee's Report

### Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

The Pensions Ombudsman 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU

or Email: enquiries@pensions-ombudsman.org.uk

Telephone: 0800 917 4487

### Related Party Transactions

The Principal Employer has paid the majority of the costs of administering the Scheme for the year, and also premiums in respect of Death-in Service benefits.

Further details of related party transactions are given in note 21 to the financial statements.

# Statement of Trustee's Responsibilities

### The Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

### The Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

## Report on Actuarial Liabilities

As required by Financial Reporting Standard 102, the financial reporting standard applicable in the United Kingdom and the Republic of Ireland (‘FRS 102’), the financial statements do not include liabilities in respect of promised retirement benefits. Under Section 222 of the Pensions Act 2004, every UK pension scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its "technical provisions". The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and Allen & Overy LLP ("the Employer") and set out in a statement of funding principles, which is available to pension Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 1 January 2020. This showed that on that date:

| | |
|---|---|
| The value of the technical provisions was: | £239.9 million |
| The value of the assets was: | £241.1 million |
| The funding surplus was: | £1.2 million |
| The funding ratio was: | 101% |

The assets and technical provisions above comprise only those in the Defined Benefit Section of the Scheme excluding additional voluntary contributions.

The actuarial valuation of the Scheme as at 1 January 2020 was carried out by Darren Charles FIA, and the Scheme Actuary’s report was published on 20 July 2020.

The Scheme Actuary also estimated that as at 1 January 2020, the assets were sufficient to buy-out 81% of total benefits with an insurance company, if the Scheme were wound-up with no further funding from the Employer. In practice, the Scheme continues to be run on an ongoing basis and there is no reason to expect that it will be wound-up.

The Scheme Actuary has carried out approximate calculations as at 1 January 2021, which showed an estimated deficit of £0.4 million and a rounded funding ratio of 100%. The technical provisions increased over the year due to falls in long-term interest rates linked to the impact of COVID-19 on financial markets although this was largely offset by an increase in the value of the assets due to the Scheme’s risk reduction measures.

As part of the most recent actuarial valuation, the Trustee determined and agreed with the Employer the assumptions to be used to calculate the technical provisions. The technical provisions are calculated on the basis that the Scheme will continue in its present form. They are based on assumptions about various factors that will influence the Scheme in the future, such as investment returns (reflected in the "discount rate"), salary and pension increases and how long members will live.

The method used to value benefits was the projected unit method.

The main financial assumptions underlying the valuation calculations were:

| | |
|---|---|
| Pre-retirement discount rate | Gilt yields plus 0.75% p.a. |
| Post-retirement discount rate | Gilt yields plus 0.5% p.a. |
| RPI inflation | Derived from the difference between yields on fixed-interest and index-linked gilts |
| Rate of salary increases | RPI inflation |
| CPI inflation | RPI inflation less 0.6% p.a. |

# Trustee’s Report

| | |
|---|---|
| Rate of pension and deferred pension increases | Pensions earned before 23 September 1996: RPI inflation<br>Pensions earned after 23 September 1996: CPI inflation |

The other key assumption is life expectancy. Based on the assumptions adopted as at 1 January 2020, a 62 year old pensioner is assumed on average to live to 88.4 (males) or 89.8 (females).

Following the 1 January 2020 actuarial valuation it was agreed that the Employer would pay:

- Expenses of running the Scheme
- Insurance premiums
- Such levies required by the Pension Protection Fund
- The cost of any augmentations to benefits
- Contributions for defined contribution (DC) members as required under the Rules plus 0.70% of Pensionable Salaries for spouse’s death-in-service pensions

No deficit reduction contributions are required as the Scheme was in surplus at 1 January 2020.

The Schedule of Contributions reflecting these agreed contributions dated 20 July 2020 has been adopted by the Trustee and the Employer, and the Actuary’s certification of the latest schedule is shown on page 72.

Since 1 January 2020, there has been extreme volatility in financial markets due to COVID-19. The impact on the Scheme was mitigated by the risk reduction measures put in place in recent years, in particular: a reduction in the Scheme's exposure to return-seeking assets such as equities, diversification and an increase in the coverage of the Scheme's interest and inflation hedging. The Trustee is pleased to report that the most recent approximate quarterly funding updates (i.e. those since 1 January 2021) are showing a surplus. The Trustee continues to monitor the funding position closely and will consider further updates to the investment strategy as and when appropriate.

The Scheme Actuary carries out a full actuarial valuation, including a review of Employer contributions, at least every three years. The effective date of the next scheduled valuation is 1 January 2023.

## Summary of Contributions

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 20 July 2020 in respect of the Scheme year ended 31 December 2021. The Scheme's Auditors' report on contributions payable under the Schedule in the Auditors' Statement about Contributions on page 76.

| **Contributions payable under the Schedule of Contributions in respect of the Scheme year:** | **£000** |
|---|---|
| Employer normal contributions – DC section | **13,183** |
| Employer death benefit contributions – DB section | **1,014** |
| Employee normal contributions – DC section | **4,375** |
| Contributions payable under the Schedule (as reported on by the Scheme's auditors) | **18,572** |

| **Contributions payable in addition to those due under the Schedule of Contributions (and not reported on by the Scheme's Auditors):** | |
|---|---|
| Employer Bonus Salary Sacrifice Contributions – DC section | **1,312** |
| Employee additional voluntary contributions – DB section | **7** |
| Employee additional voluntary contributions – DC section | **2,138** |
| **Total contributions included in the financial statements** | **22,029** |

Trustee's Report

## Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals for information about their benefits or Scheme documentation, should be sent to:

Capita Pension Solutions Limited
PO Box 555
Stead House
Darlington
DL1 9YT

Tel: 01227 771445
Email: AllenOvery@capita.co.uk

## Approval

**The Trustee's Report on pages 5 to 44 including the Summary of Contributions, was approved by the Trustee and signed on its behalf by:**

Jeremy Parr........................................................................... **Date:** 25 July 2022 ................................................

**Trustee Director**

# DC Governance Statement

## Annual Chair's Statement for the DC and AVC sections of the Allen & Overy Pension Scheme

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) requires the Trustee to prepare an annual statement regarding governance, which should be included in the annual Trustee's report and accounts. The governance requirements apply to all trust-based Defined Contribution (“DC”) pension arrangements, including DC schemes with Additional Voluntary Contribution (AVC) arrangements where the AVCs are not the only money purchase benefits. They aim to help members achieve a good outcome from their pension savings.

This statement relates to the Defined Contribution Section (the “DC Section”) of the Allen & Overy Pension Scheme (the “Scheme”) and the money purchase additional voluntary contributions held by members of the Defined Benefit Section of the Scheme (the “AVCs”). It covers the period from **1 January 2021 to 31 December 2021.** It has been signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following: The primary and secondary default arrangements,

1. The primary and secondary default arrangements,
2. Net investment returns
3. Member borne charges and transaction costs,
4. Assessing Value for Members,
5. Processing of core financial transactions, and
6. Trustee knowledge and understanding.

The Trustee has considered the possible impact of the Covid-19 pandemic on the Scheme and has taken appropriate steps to ensure that the Scheme continues to operate effectively during this time. Specifically, the Trustee successfully continued to conduct virtual and sometimes hybrid (with both virtual and in-person attendance) quarterly meetings. In the previous Scheme year, the Trustee had updated the Scheme’s risk register to account for additional risks arising from pandemic and this risk register was maintained over the Scheme year. This has allowed the Trustee to ensure that the operational aspects of the Scheme were maintained over the period and that they were able to continue to apply appropriate Scheme governance.

The Trustee has a process in place to publish relevant parts of this statement online and notify members within annual benefit statements about its availability.

### 1. The Primary and Secondary Default Arrangements

*The Trustee is required to design the default arrangements in members' interests and keep them under review. The Trustee needs to set out the aims and objectives of the default arrangements and take account of the level of costs and the risk profile that are appropriate for the Scheme's membership.*

The core DC Section is used as a Qualifying Scheme for auto-enrolment purposes and has both a primary and secondary default arrangement:

- **Primary default arrangement:** The Multi-Asset Lifecycle Strategy is for members who join the Scheme and do not choose an investment option for their contributions. Members can also choose to invest in this strategy on a self-select basis.

# DC Governance Statement (continued)

## 1. The Primary and Secondary Default Arrangements (continued)

- **Secondary default arrangement**: The Standard Life Deposit and Treasury Pension Fund was designated a secondary default arrangement in March 2020. This was following the temporary suspension of trading in the Standard Life Pooled Property Fund at the time (due to the impact of the Covid-19 pandemic), which prevented new contributions from being invested into the Standard Life Pooled Property Fund. The Trustee therefore decided that, in the absence of any member instructions, contributions originally destined for the Standard Life Pooled Property Fund would be temporarily re-directed into the Standard Life Deposit and Treasury Pension Fund. As a result, this fund is now deemed a default arrangement.

More details regarding the primary and secondary default arrangements can be found in the sections that follow.

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's primary and secondary default arrangements.

Details of the objectives and the Trustee's policies regarding the primary and secondary default arrangements can be found in the 'Statement of Investment Principles' (SIP) for the DC and AVC Sections of the Scheme. The latest SIP for the DC and AVC Sections of the Scheme, dated May 2022 is attached to this statement and can also be viewed here:

https://www.myallenoverypension.com/Library/AOLibMemComm.asp

The SIP covering the DC and AVC Sections of the Scheme, which was prepared in accordance with regulation 2A of the Investment Regulations 2005, was updated post Scheme year end, to reflect the changes made to the Lifecycle strategies on 10 November 2021, following completion of the triennial strategy review.

***Multi-Asset Lifecyle strategy***

The Multi-Asset Lifecyle Strategy is suitable for members who do not choose to take an active role in managing their investment options. The strategy invests in several underlying funds and automatically changes the funds members are invested in as they approach retirement. This approach aims to maximise the growth potential of investments in the early years and reduce investment risk (by investing across a broader range of asset classes) the closer members get to retirement.

The Multi-Asset Lifecyle strategy comprises three phases:

- **Accumulation phase**: this phase is the period leading up to 15 years before retirement. It aims to provide members with the potential of long-term capital growth by investing in higher risk assets, such as equities. It is assumed that in this phase, members have a greater capacity for risk as they have more time to recover from changes in the value of their retirement savings that may be caused by short-term market volatility.

- **Transition phase**: In this phase, the aim is to reduce investment risk in the lead-up to retirement. Between 15 and 10 years prior to retirement, allocations to lower risk assets, such as multi-asset funds, are gradually introduced and this is achieved by reducing the allocations to equities. Between 10 and 5 years prior to retirement, allocations to government and corporate bonds are introduced. This is achieved by reducing the allocations to equities and multi-asset funds, as mentioned above.

- **Pre-retirement phase**: Starting at 5 years to retirement, this phase aims to further reduce risk and to ensure the strategy is invested in a mix of assets at retirement broadly appropriate for members to use an income drawdown approach in retirement (this would involve a member transferring their funds to an external arrangement at retirement).

# DC Governance Statement (continued)

## 1. The Primary and Secondary Default Arrangements (continued)

*Investment Strategy Review*

An investment strategy review, including a review of the Multi-Asset Lifecycle Strategy (primary default arrangement), is undertaken at least every three years, or following any significant changes in the demographic profile of the Scheme members, which is in line with the Regulatory requirements.

The last investment strategy review, which included a review of the primary default arrangement, for the Scheme was completed on 12 September 2019. The review analysed the membership profile of the Scheme and took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of members in order to test alternative investment strategies. The analysis included multiple simulations of future economic and investment scenarios, and considered the various options members have regarding the way in which they draw their benefits in retirement. The Trustee took advice from its investment consultant, Aon, on all these aspects.

While some changes were considered as part of the review, the Trustee decided to retain the primary default strategy in its current form at the time. This decision was based on the fact that the Trustee and sponsoring employer were in the process of reviewing the structure through which DC benefits were provided to employees and was supported by the fact that the Trustee was comfortable the current primary default strategy remained suitable for members and continued to meet its aims and objectives, which are detailed above.

As the review of the structure through which DC and AVC benefits are provided is ongoing, the Trustee, with the support of its investment consultants, revisited the proposals during the Scheme year and agreed to make the following changes to the Lifecycle Strategies (which included the primary default arrangement):

- The allocation to the SL Global Equity 50:50 Tracker Pension Fund within the Lifecycle strategies was replaced by the SL Overseas Tracker Pension Fund (95% allocation) and the SL Vanguard FTSE UK All Share Index Pension Fund (5% allocation).
- Removal of the Multi-Asset Funds from the “Accumulation Phase” of each strategy, so that members are now fully invested in global equities during that period.
- The “Transition Phase” has been extended so that members start to de-risk 15 years from their Planned Retirement Age rather than 10 years prior.

In addition to the changes stated above, the Annuity Lifecycle Strategy’s allocation to the SL UK Fixed Interest 60:40 Pension Fund has been replaced with the SL Index Linked Bond Pension Fund, which was already utilised within the Annuity Lifecycle Strategy.

The changes stated above were successfully implemented on 10 November 2021

***Standard Life Deposit and Treasury Pension Fund***

The Standard Life Deposit and Treasury Pension Fund is now considered a secondary default arrangement following the temporary suspension of the Standard Life Pooled Property Fund in March 2020. The primary aim of the Fund is to maintain capital and provide returns (before charges) in line with short term money market rates by investing in deposits and short-term money market instruments.

The Standard Life Pooled Property Fund was temporarily suspended in March 2020, due to valuation concerns resulting from the Covid-19 pandemic, and the cessation of new contributions into that fund during this time.

# DC Governance Statement (continued)

**1. The Primary and Secondary Default Arrangements (continued)**

**Standard Life Deposit and Treasury Pension Fund (continued)**

The Trustee notified affected members of the suspension and that members could redirect their contributions to an alternative fund in the DC Scheme arrangement. However, members that did not provide an alternative receiving fund before the given deadline had their contributions automatically transferred to the Standard Life Deposit and Treasury Pension Fund. Consequently, the Fund is classified as a secondary default investment option for regulatory reporting and monitoring purposes.

The Trustee believed that the Standard Life Deposit and Treasury Pension Fund was the most appropriate investment option in which to temporarily hold contributions intended for the Standard Life Pooled Property Fund as it has historically experienced low levels of volatility and was deemed to be an appropriate option to protect the value of members' contributions on a short-term basis.

The Standard Life Pooled Property Fund's suspension was lifted in September 2020. The affected members were notified of this and informed that they could choose to redirect their future contributions and any retirement savings accrued during the period of suspension back to the Standard Life Pooled Property Fund.

**Performance monitoring**

The Trustee, with support from its investment consultant, also carries out regular investment monitoring. Performance of all funds, including those underlying the primary and secondary default arrangements, are reported in the quarterly monitoring report, and reviewed at the regular Trustee meetings. Regular performance monitoring includes an assessment of fund performance against stated benchmarks and targets over various periods, as well as a red-amber-green rating system to help identify any concerns. Over the course of the Scheme year, there were no changes to the funds as a result of this monitoring.

**2. Net Investment Returns**

*The Trustees are required to report on net investment returns for each default arrangement and for each non-default fund which scheme members were invested in during the scheme year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges. The net investment returns have been prepared having regard to statutory guidance. It is important to note that past performance is not a guarantee of future performance.*

***Multi-Asset Lifecycle Strategy (the primary default arrangement)***

The performance of the Multi-Asset Lifecycle Strategy, across a 1 year, 3 year and 5 year rolling period as at 31 December 2021 is shown in the table below. The returns have been calculated as a weighted average of the underlying component funds using the different asset allocations that apply at the ages shown in the table.

| Performance to 31 December 2021 | Annualised Returns (%) | |
|---|---|---|
| Age of member in 2021 | 1 Year | 5 Year |
| 25 to 50 | 15.29 | 7.01 |
| 55 | 13.67 | 6.71 |
| 60 | 7.69 | 5.70 |
| 65 | 6.50 | 5.47 |

Source: Standard Life and underlying managers. Returns quoted net of total expense ratios and transaction costs. Performance figures are annualised for periods in excess of one year. We have that the normal retirement age is 65, which is line with the retirement age selected by the majority of members.

# DC Governance Statement (continued)

**2. Net Investment Returns (continued)**

***Multi-Asset Lifecycle Strategy (the primary default arrangement)*** **(continued)**

The table shows that younger members achieved the highest returns over the one and five year periods within the Multi-Asset Lifecycle Strategy. This is to be expected given that members within this age bracket are solely invested in equities via the SL Overseas Track Fund and the SL Vanguard FTSE UK All share Index Pension Fund, which are expected to generate higher long-term returns due to a higher overall level of risk.

The level of net returns achieved over the one and five year periods decrease as members approach their selected retirement age, which is assumed to be 65 years in this case. This is to be expected as the Multi-Asset Lifecycle Strategy automatically switches members' savings into a more diversified mix of assets in order to reduce risk as they approach retirement age. The mix of assets includes multi-asset funds as well as corporate and government bond funds, which are expected to generate lower returns than equities over the long-term given their lower risk profile.

As noted in section 1, the Trustee implemented a number of changes to the Lifecycle strategies during the Scheme year, which included the primary default arrangement. The performance figures above represent the net of fee returns achieved by the Multi-Asset Lifecycle Strategy over the year accounting for the November transition.

***Standard Life Deposit and Treasury Pension Fund (the secondary default arrangement)***

| Performance to 31 December 2021 | Annualised Returns (%) | |
|---|---|---|
| Fund Name | 1 Year | 5 Year |
| Standard Life Deposit and Treasury Pension Fund | -0.09 | 0.23 |

Source: Standard Life and underlying managers. Returns quoted net of total expense ratios and transaction costs. Performance figures are annualised for periods in excess of one year.

As noted previously, the temporary closure of the Standard Life Pooled Property Fund prevented new contributions from being invested into the Standard Life Pooled Property Fund. The Trustee therefore decided that, in the absence of any member instructions, contributions destined for the Standard Life Pooled Property Fund would be temporarily re-directed into the Standard Life Deposit and Treasury Pension Fund. As a result, this fund is now deemed a default arrangement. Members invested in this fund generated slightly negative returns over one year and slight positive returns over five years. This is reflective of the low returns associated with investing in money market instruments.

***Additional Lifecycle Strategies***

*Cash Lifecycle Strategy*

The performance of the Cash Lifecycle Strategy, across a 1 year, 3 year and 5 year rolling period as at 31 December 2021 is shown in the table below. The returns have been calculated as a weighted average of the underlying component funds using the different asset allocations that apply at the ages shown in the table.

| Performance to 31 December 2021 | Annualised Returns (%) | |
|---|---|---|
| Age of member in 2021 | 1 Year | 5 Year |
| 25 to 50 | 15.29 | 7.01 |
| 55 | 13.67 | 6.71 |
| 60 | 7.69 | 5.70 |
| 65 | -0.09 | 0.23 |

Source: Standard Life and underlying managers. Returns quoted net of total expense ratios and transaction costs. Performance figures are annualised for periods in excess of one year. We have that the normal retirement age is 65, which is line with the retirement age selected by the majority of members.

# DC Governance Statement (continued)

## 2. Net Investment Returns (continued)

***Cash Lifecycle Strategy (continued)***

The performance figures above represent the net of fee returns achieved by the Cash Lifecycle Strategy following the changes implemented in November 2021.

The table shows that younger members achieved the highest returns over the one and five year periods within the Cash Lifecycle Strategy. This is to be expected given that members within this age bracket are solely invested in equities via SL Overseas Track Fund and the SL Vanguard FTSE UK All share Index Pension fund, which would be expected to generate higher long-term returns due to a higher overall level of risk.

The level of net returns achieved over the one and five year periods decrease as members approach their selected retirement age, which is assumed to be 65 years in this case. This is to be expected as the Cash Lifecycle Strategy automatically switches members' savings into a more diversified mix of assets in order to lower risk as they approach retirement age, eventually investing 100% of assets in the SL Deposit and Treasury Pension Fund.

*Annuity Lifecycle Strategy*

The performance of the Annuity Lifecycle Strategy, across a 1 year, 3 year and 5 year rolling period as at 31 December 2021 is shown in the table below. The returns have been calculated as a weighted average of the underlying component funds using the different asset allocations that apply at the ages shown in the table.

| Performance to 31 December 2021 | Annualised Returns (%) | |
|---|---|---|
| **Age of member in 2021** | **1 Year** | **5 Year** |
| 25 to 50 | 15.29 | 7.01 |
| 55 | 13.67 | 6.71 |
| 60 | 7.69 | 5.70 |
| 65 | -2.69 | 3.10 |

Source: Standard Life and underlying managers. Returns quoted net of total expense ratios and transaction costs. Performance figures are annualised for periods in excess of one year. We have that the normal retirement age is 65, which is line with the retirement age selected by the majority of members.

The performance figures above represent the net of fee returns achieved by the Annuity Lifecycle Strategy following the changes implemented in November 2021.

The table shows that again younger members achieved the highest returns over the one and five year periods within the Annuity Lifecycle Strategy. This is to be expected given that members within this age bracket are solely invested in equities via SL Overseas Track Fund and the SL Vanguard FTSE UK All share Index Pension fund, which would be expected to generate higher long-term returns due to a higher overall level of risk.

The level of net returns achieved over the one and five year periods decrease as members approach their selected retirement age, which is assumed to be 65 years in this case. This is to be expected as the Annuity Lifecycle Strategy automatically switches members' savings into a more diversified mix of assets in order to lower risk as they approach retirement age, eventually investing 25% of assets in the SL Deposit and Treasury Pension Fund and 75% in the SL Index Linked Bond Fund.

# DC Governance Statement (continued)

## 2. Net Investment Returns (continued)

***Self-Select Investment Funds***

The table below shows the net investment returns achieved by each of the self-select funds over the one and five year reporting periods.

| Performance to 31 December 2021 | Annualised Returns (%) | |
|---|---|---|
| **Fund Name** | **1 Year** | **5 Year** |
| Standard Life Overseas Tracker Pension Fund | 25.04 | 13.62 |
| SL Veritas Global Focus Pension Fund | 16.61 | 12.21 |
| SL Vanguard FTSE UK All Share Index Pension Fund | 18.20 | 5.22 |
| Standard Life Majedie UK Equity Fund | 17.96 | n/a |
| Standard Life Pooled Property Pension Fund | 24.83 | 6.57 |
| SL Vanguard Emerging Markets Stock Index Pension Fund | -2.56 | 7.34 |
| SL Vanguard UK Investment Grade Bond Index Pension Fund | -3.11 | 3.07 |
| SL ASI Global Real Estate Institutional Pension Fund | 12.45 | 4.83 |
| SL Schroder Intermediated Diversified Growth Pension Fund | 7.52 | 5.26 |
| Standard Life Index Linked Bond Pension Fund | 3.48 | 4.69 |
| Standard Life Global Equity 50:50 Tracker Pension Fund | 21.61 | 9.49 |
| SL Ninety-One Global Multi-Asset Sustainable Growth Fund | 2.90 | 2.40 |
| SL Corporate Bond Fund | -3.40 | 3.49 |
| Standard Life Deposit and Treasury Pension Fund | -0.09 | 0.23 |
| Standard Life UK Fixed Interest 60:40 Pension Fund | -4.97 | 3.76 |

Source: Source: Standard Life and underlying managers. Returns quoted net of total expense ratios and transaction costs. Performance figures are annualised for periods in excess of one year.

# DC Governance Statement (continued)

## 2. Net Investment Returns (continued)

***Additional Voluntary Contributions***

Information was requested from the AVC providers (Aviva and Prudential). Requested information was not received in time for the production of this statement.

## 3. Member Borne Charges and Transaction costs

The Trustees should regularly monitor the level of costs and charges borne by members through the investment funds. These comprise:

- Charges: these are explicit, and represent the costs associated with operating and managing an investment fund. They can be identified as a Total Expense Ratio (TER), or as an Annual Management Charge (AMC), which is a component of the TER;
- Transaction costs: these are not explicit and are incurred when the Scheme's fund manager buys and sells assets within investment funds but are exclusive of any costs incurred when members invest in or sell out of funds.

The Trustees are also required to confirm that the total costs and charges paid by any member in the default arrangement have not exceeded 0.75% p.a. (the charge cap) and produce an illustration of the cumulative effect of the overall costs and charges on members' retirement fund values as required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018. These charges comprise:

**DC Section**

Prior to the implementation of the changes to the Multi-Asset Lifecycle Strategy (the primary default arrangement) on 10 November 2021, this Strategy levied a Total Expense Ratio (TER) ranging from 0.34% p.a. to 0.45% p.a. of assets under management. Following this, the TER range levied changed to 0.10% p.a. to 0.44% p.a. of assets under management. Importantly, the TER ranges levied across the whole Scheme year were below the charge cap of 0.75% p.a. As part of the Lifecycle strategies (including the primary default arrangement), members' assets are invested in a different blend of funds depending on how far away they are from retirement and, as such, the TERs for the Lifecycle strategies will vary in accordance with the blend of funds held at any point in time.

The Total Expense Ratio for the Standard Life Deposit and Treasury Pension Fund (the secondary default arrangement) was 0.16% over the Scheme year, which is also below the 0.75% p.a. charge cap.

In addition to the primary and secondary default arrangements, the Scheme also offers a range of 14 self-select funds and 2 other Lifecycle strategies that members can choose to invest in as an alternative to the default strategy. The TERs that were levied on these funds and strategies as at 31 December 2021 are set out in the table below. The TERs applicable to different funds are readily available to members and can be found via the Scheme's website. The TER is deducted as a percentage of members' funds.

The table below also shows transaction costs incurred for each of the Lifecycle strategies and self-select funds available to members over the Scheme year to 31 December 2021. The transaction costs shown below are calculated using the standardised method set by the Financial Conduct Authority. Transaction costs were requested from Prudential, however, information was not received in time for the production of the statement.

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

### DC Section (continued)

The transaction costs shown were incurred largely as a result of buying and selling investments in a fund. These comprise explicit transaction costs and implicit transaction costs, which are explained in more detail here:

- As defined by the Financial Conduct Authority, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.
- Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted ‘mid-market price’ at the time of the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another.

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

### DC Section (continued)

**Fund costs as at 31 December 2021**

| Lifecycle strategies | Total Expense Ratio (TER) (%) | Transaction Costs (%) | Total costs (%) |
|---|---|---|---|
| Multi-Asset (primary default arrangement) | 0.10 - 0.44 | 0.16-0.30 | 0.33-0.74 |
| Cash | 0.10 - 0.44 | 0.07-0.30 | 0.33-0.74 |
| Annuity | 0.10 - 0.44 | 0.06-0.30 | 0.26-0.74 |
| **Funds used in the Lifecyle strategies and also available within the Self-Select arrangement** | | | |
| Standard Life Overseas Tracker Pension Fund | 0.10 | 0.14 | 0.24 |
| Standard Life Vanguard FTSE UK All Share Index Pension Fund | 0.10 | 0.12 | 0.22 |
| Standard Life Schroder Intermediated Diversified Growth Pension Fund | 0.76 | 0.20 | 0.96 |
| Standard Life Ninety One Global Multi-Asset Sustainable Growth Pension Fund [1] | 0.80 | 0.55 | 1.35 |
| Standard Life Corporate Bond Fund | 0.31 | 0.07 | 0.38 |
| Standard Life Index Linked Bond Pension Fund | 0.31 | 0.08 | 0.39 |
| Standard Life Deposit and Treasury Pension Fund (secondary default arrangement) | 0.16 | 0.08 | 0.24 |
| **Self-Select Funds** | | | |
| Standard Life Global Equity 50:50 Tracker Pension Fund[2] | 0.11 | 0.06 | 0.17 |
| Standard Life Veritas Global Focus Pension Fund | 1.06 | 0.11 | 1.05 |
| Standard Life Majedie UK Equity Fund | 0.80 | 0.19 | 0.99 |
| Standard Life Vanguard Emerging Markets Stock Index Pension Fund | 0.25 | 0.08 | 0.33 |
| Standard Life Vanguard UK Investment Grade Bond Index Pension Fund | 0.10 | 0.09 | 0.19 |
| Standard Life UK Fixed Interest 60:40 Pension Fund | 0.31 | 0.06 | 0.37 |
| Standard Life ASI Global Real Estate Institutional Pension Fund[3] | 0.77 | 0.68 | 1.45 |
| Standard Life Pooled Property Pension Fund[4] | 0.53 | 0.13 | 0.66 |

Source: Standard Life as at 31 December 2021

1. The fund name changed from SL Ninety One Diversified Growth Fund in April 2021
2. Following the implementation of the investment strategy review, this fund was removed from the default lifecycle in November 2021.
3. This fund was launched in the self-select fund range in Q2 2021
4. This fund was closed to new investments in Q2 2021.

# DC Governance Statement (continued)

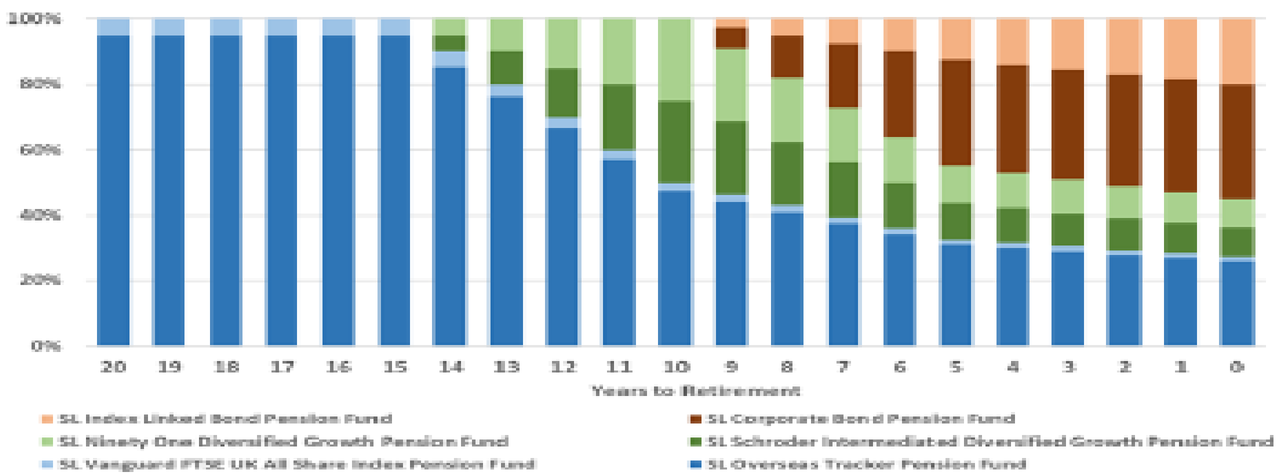
## 3. Member Borne Charges and Transaction costs (continued)

*Multi-Asset Lifecycle strategy (Primary Default arrangement)*

During the Scheme year, the level of charges and transaction costs applicable to the Multi-Asset Lifecycle strategy varied depending on the number of years left until a member's selected retirement age, as shown in the table below.

As required, the TER of the default strategy remained well below the regulatory charge cap of 0.75% for all terms to retirement.

The chart below displays the allocation of funds that make up the Multi-Asset Lifecycle strategy following the changes implemented in November 2021, while the table provides a breakdown of The Chair's DC Governance and Charges Statement 10 charges and transaction costs applicable to a member each year up to retirement. Please note that that due to rounding it is possible that the total cost value displayed below may not be equal to the sum of the TER and transaction cost.




| Years to retirement | 15+ | 14 | 13 | 12 | 11 | 10 | 9 | 8 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.10 | 0.17 | 0.24 | 0.30 | 0.37 | 0.44 | 0.42 | 0.40 |
| Transaction Costs % | 0.23 | 0.24 | 0.26 | 0.27 | 0.29 | 0.30 | 0.28 | 0.25 |
| Total Cost % | 0.33 | 0.41 | 0.49 | 0.58 | 0.66 | 0.74 | 0.70 | 0.66 |

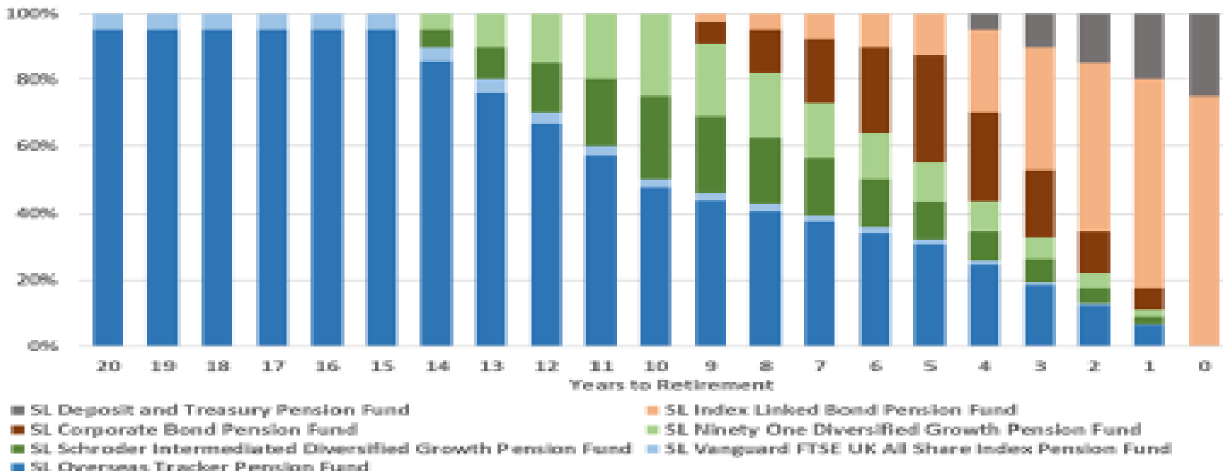
| Years to retirement | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.38 | 0.37 | 0.35 | 0.34 | 0.34 | 0.34 | 0.34 | 0.33 |
| Transaction Costs % | 0.23 | 0.21 | 0.18 | 0.18 | 0.17 | 0.17 | 0.16 | 0.16 |
| Total Cost % | 0.61 | 0.57 | 0.53 | 0.52 | 0.51 | 0.51 | 0.50 | 0.49 |

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

*Annuity Lifecycle strategy*

Similarly, the chart below displays the allocation of funds that make up the Annuity Lifecycle strategy following the changes implemented in November 2021, while the table indicates the varied level of charges and transaction costs applicable to the Annuity Lifecycle strategy across each year until a member's selected retirement age. Please note that that due to rounding it is possible that the total cost value displayed below may not be equal to the sum of the TER and transaction cost.




| Years to retirement | 15+ | 14 | 13 | 12 | 11 | 10 | 9 | 8 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.10 | 0.17 | 0.24 | 0.30 | 0.37 | 0.44 | 0.42 | 0.40 |
| Transaction Costs % | 0.23 | 0.24 | 0.26 | 0.27 | 0.29 | 0.30 | 0.28 | 0.25 |
| Total Cost % | 0.33 | 0.41 | 0.49 | 0.58 | 0.66 | 0.74 | 0.70 | 0.66 |

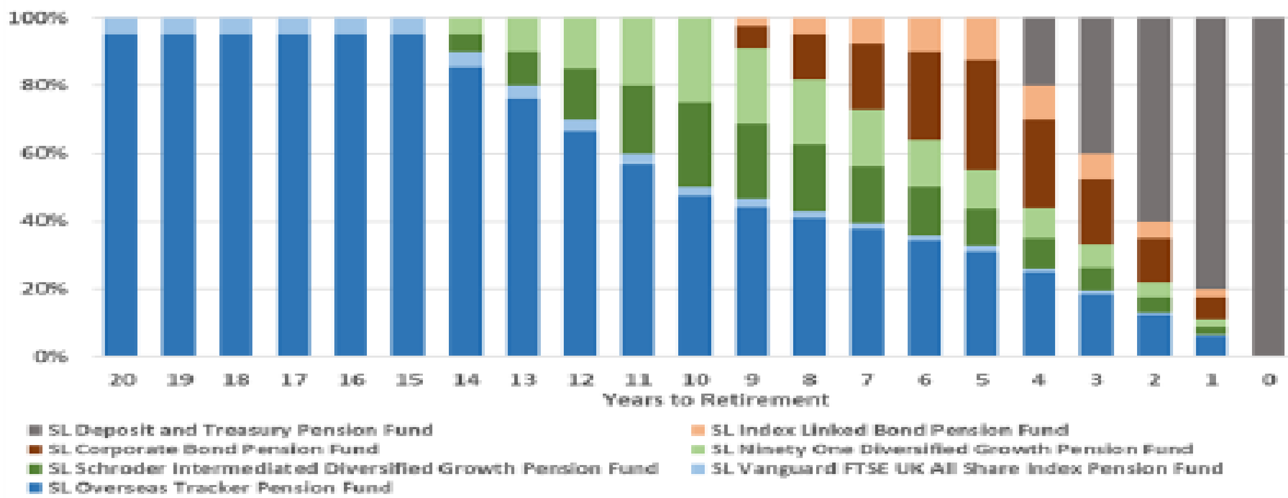
| Years to retirement | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.38 | 0.37 | 0.35 | 0.33 | 0.32 | 0.30 | 0.29 | 0.27 |
| Transaction Costs % | 0.23 | 0.21 | 0.18 | 0.15 | 0.12 | 0.10 | 0.07 | 0.04 |
| Total Cost % | 0.61 | 0.57 | 0.53 | 0.49 | 0.44 | 0.40 | 0.35 | 0.31 |

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

*Cash Lifecycle strategy*

Similarly, the chart below displays the allocation of funds that make up the Cash Lifecycle strategy following the changes implemented in November 2021, while the table indicates the varied level of charges and transaction costs applicable to the Cash Lifecycle strategy across each year until a member's selected retirement age. Please note that that due to rounding it is possible that the total cost value displayed below may not be equal to the sum of the TER and transaction cost.




| Years to retirement | 15+ | 14 | 13 | 12 | 11 | 10 | 9 | 8 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.10 | 0.17 | 0.24 | 0.30 | 0.37 | 0.44 | 0.42 | 0.40 |
| Transaction Costs % | 0.23 | 0.24 | 0.26 | 0.27 | 0.29 | 0.30 | 0.28 | 0.25 |
| Total Cost % | 0.33 | 0.41 | 0.49 | 0.58 | 0.66 | 0.74 | 0.70 | 0.66 |

| Years to retirement | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 |
|---|---|---|---|---|---|---|---|---|
| TER % p.a. | 0.38 | 0.37 | 0.35 | 0.31 | 0.27 | 0.24 | 0.20 | 0.16 |
| Transaction Costs % | 0.23 | 0.21 | 0.18 | 0.15 | 0.12 | 0.09 | 0.06 | 0.03 |
| Total Cost % | 0.61 | 0.57 | 0.53 | 0.46 | 0.40 | 0.33 | 0.26 | 0.19 |

## 3. Member Borne Charges and Transaction costs (continued)

***Cash Lifecycle strategy (continued)***

The Trustee also requested costs and charges information from the AVC providers; Prudential and Aviva.

**AVCs with Prudential**

The Prudential With Profits Cash Accumulation Fund was the only fund managed by Prudential that held member assets at the end of the reporting period. Prudential have been unable to provide fund management charges for this Fund

**AVCs with Aviva**

The Aviva Conventional With Profits Fund was the only Aviva managed fund that held member assets at the end of the period in question. Aviva have confirmed that there are no explicit charges or transaction costs applying to the Conventional With Profits Fund available to members through the Scheme.

The costs of operating the Aviva Conventional With Profits Fund are taken account of when the annual bonus rate on the Fund is declared. Aviva does not provide any indication of the costs of investing in the Conventional With Profits Fund, and this is common market practice for older style With Profits Fund.

**Illustration of the cumulative impact of costs and charges on member fund value over time**

*From 6 April 2018, the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.*

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee have provided 3 illustrations of their cumulative effect on the value of typical scheme members savings over the period to their retirement. The typical scheme members used for the illustrations and the strategies and funds modelled below are in line with the requirements set out in the DWP Guidance on producing illustrations for Chair's Statements. The typical scheme members have been selected as they enable the Trustee to provide a realistic and representative range of combinations of pot size, contribution rates and effect of costs and charges over different time periods in the illustrations.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out in the appendix.

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 and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme, they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

### Illustration of the cumulative impact of costs and charges on member fund value over time (continued)

Each illustration [the youngest active member, a typical active member and a typical deferred member] is shown for a different type of member invested in the Multi-Asset Lifecycle strategy (the primary default arrangement) and the SL Deposit and Treasury Fund (the deemed default). Each illustration is shown as a chart and a table as follows:

- The Chart shows a projection of the member's retirement savings at retirement age, with and without costs and charges applied, if they invested solely in the Multi-Asset Lifecyle Strategy (the primary default arrangement) and the SL Deposit and Treasury Fund (the deemed default).
- As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures with other investments in the Tables for the Multi-Asset Lifecycle Strategy. For comparison purposes and following updated guidance, we also show the projected retirement savings if the typical member were invested in the fund with the highest and lowest charges - the SL ASI Global Real Estate Institutional Fund - which has higher charges – the Standard Life Global Equity 50:50 Tracker Pension Fund - which has the lowest charges.

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

Please note that not all investment options available are shown in the illustrations. Members are also offered a range of self-select funds which, as the tables above show, will carry a variety of TERs and transaction costs.

It should be noted that returns for cash instruments have historically been very low, and after the reduction for charges, some members may incur capital erosion due to inflation being higher than our assumed cash returns (2.5% p.a. vs 1.2% p.a.). Members may want to consider reviewing their fund options if they are invested in the Standard Life Deposit and Treasury Pension Fund (the secondary default arrangement) to ensure it is appropriate for their personal circumstances.

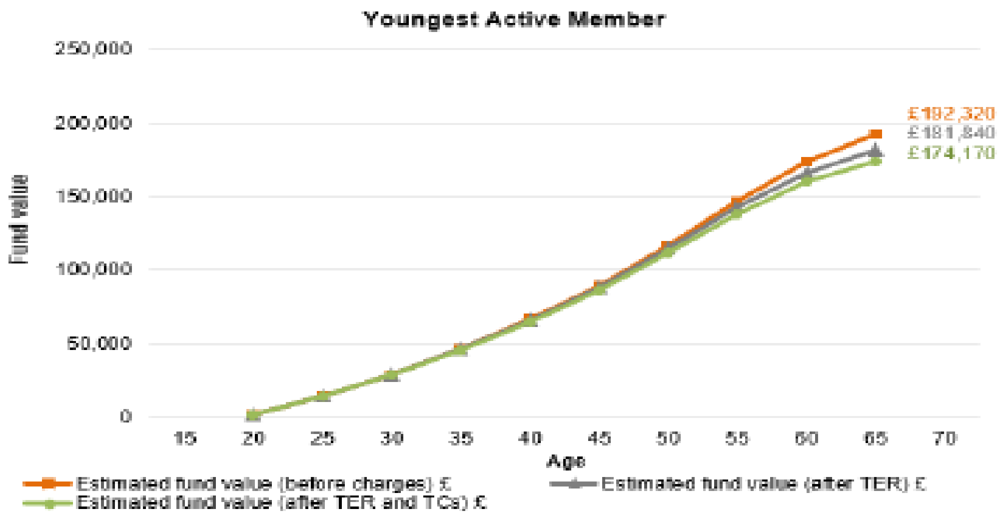
**Youngest Active Member**

For the youngest active member invested in the Multi-Asset Lifecycle (the primary default arrangement) and the Standard Life Deposit and Treasury Fund (the secondary default arrangement), the estimated impact of charges on accumulated fund values is shown in the table and chart below. The amounts shown relate to a member aged 20, current fund value of £1,600, salary of £26,500, ongoing contributions of 9% of salary and a Normal Retirement Age of 65.

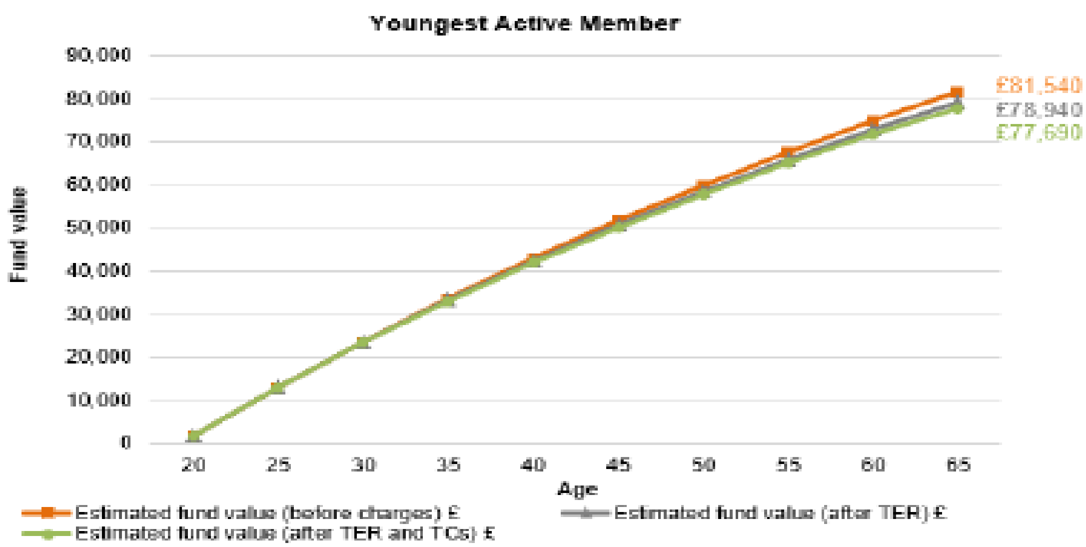
# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

Multi-Asset Lifecycle




Standard Life Deposit and Treasury Fund



# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

**Standard Life Deposit and Treasury Fund (continued)**

As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in high charges fund (SL ASI Global Real Estate Institutional Fund) which has a higher level of costs and charges and the Standard Life Global Equity 50:50 Tracker Pension Fund, which has a lower cost and charge level to the primary default arrangement.

| Age | Multi-Asset Lifecycle Strategy (Primary Default Arrangement) | | | Standard Life Veritas Global Focus Pension Fund | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 20 | 1,600 | 1,600 | 0 | 1,600 | 1,600 | 0 |
| 25 | 14,520 | 14,420 | 100 | 14,720 | 14,150 | 570 |
| 30 | 29,440 | 29,070 | 370 | 30,230 | 28,000 | 2,230 |
| 35 | 46,680 | 45,810 | 870 | 48,580 | 43,300 | 5,280 |
| 40 | 66,590 | 64,920 | 1,670 | 70,290 | 60,190 | 10,100 |
| 45 | 89,590 | 86,750 | 2,840 | 95,960 | 78,840 | 17,120 |
| 50 | 116,170 | 111,680 | 4,490 | 126,330 | 99,440 | 26,890 |
| 55 | 146,180 | 138,290 | 7,890 | 162,240 | 122,170 | 40,070 |
| 60 | 173,590 | 160,120 | 13,470 | 204,720 | 147,280 | 57,440 |
| 65 | 192,320 | 174,170 | 18,150 | 254,970 | 175,000 | 79,970 |

| Age | Standard Life Global Equity 50:50 Tracker Fund | | | Standard Life Deposit and Treasury Fund (Secondary Default Arrangement) | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 20 | 1,600 | 1,600 | 0 | 1,600 | 1,600 | 0 |
| 25 | 14,520 | 14,450 | 70 | 12,910 | 12,830 | 80 |
| 30 | 29,440 | 29,170 | 270 | 23,520 | 23,240 | 280 |
| 35 | 46,680 | 46,040 | 640 | 33,480 | 32,890 | 590 |
| 40 | 66,590 | 65,360 | 1,230 | 42,820 | 41,830 | 990 |
| 45 | 89,590 | 87,490 | 2,100 | 51,580 | 50,130 | 1,450 |
| 50 | 116,170 | 112,850 | 3,320 | 59,810 | 57,820 | 1,990 |
| 55 | 146,860 | 141,900 | 4,960 | 67,520 | 64,950 | 2,570 |
| 60 | 182,320 | 175,180 | 7,140 | 74,750 | 71,560 | 3,190 |
| 65 | 223,280 | 213,310 | 9,970 | 81,540 | 77,690 | 3,850 |

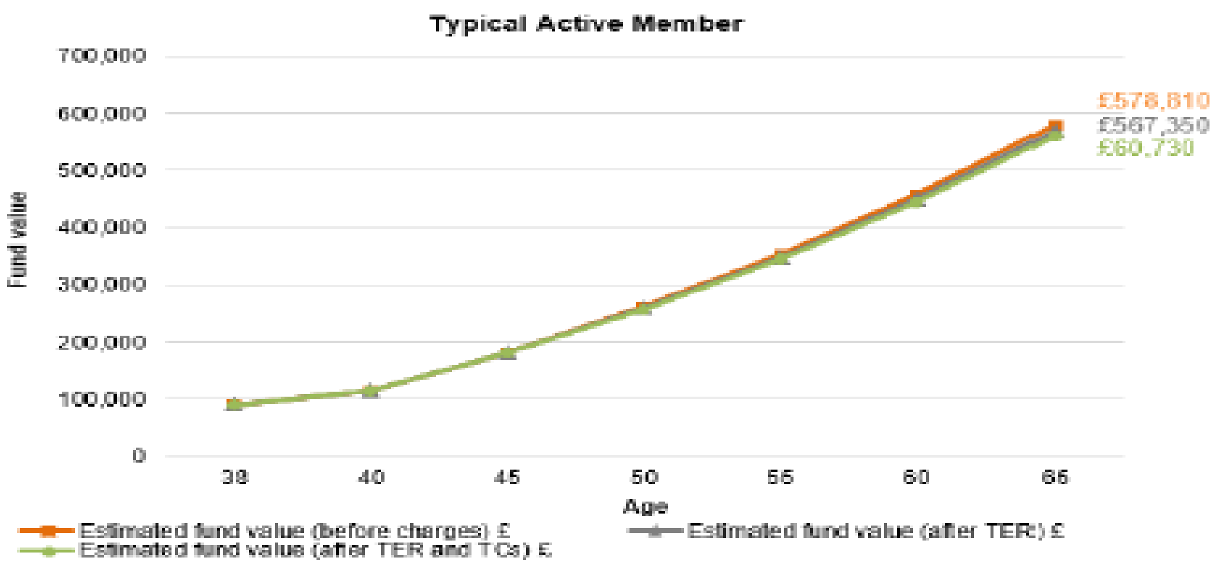
# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

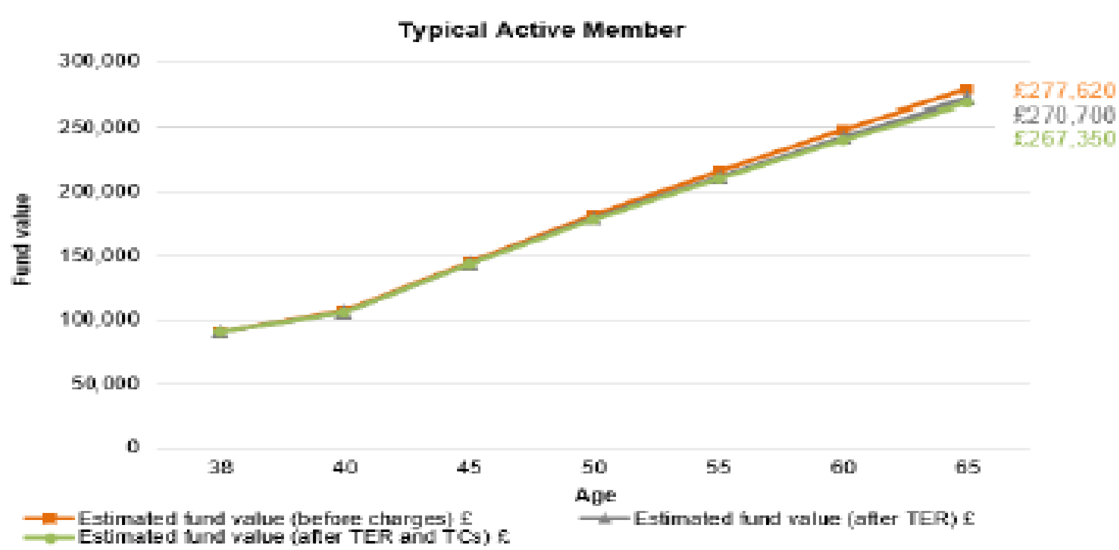
**Typical Active Member**

For a typical active member invested in the Multi-Asset Lifecycle strategy (primary default arrangement) and the Standard Life Deposit and Treasury Fund (the secondary default arrangement), the estimated impact of charges on accumulated fund values is shown in the table and charts below. The amounts shown relate to a member aged 38, current fund value of £90,000, salary of £79,000, ongoing contributions of 12% of salary and a Normal Retirement Age of 65, which reflects a typical active member based on the Scheme's current membership. Compared to the youngest active member, note the contribution level of 12% (compared to 9% which reflects the youngest active member) is a key driver of the higher total fund value at retirement.

Multi-Asset Lifecycle




Standard Life Deposit and Treasury Fund



# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

**Standard Life Deposit and Treasury Fund (continued)**

As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in the fund with the highest charges (SL ASI Global Real Estate Institutional Fund) which has a higher level of costs and charges and the Standard Life Global Equity 50:50 Tracker Pension Fund, which has a lower cost and charge level to the primary default arrangement.

| Age | Multi-Asset Lifecycle Strategy (Primary Default Arrangement) | | | Standard Life Veritas Global Focus Pension Fund | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 38 | 90,000 | 90,000 | 0 | 90,000 | 90,000 | 0 |
| 40 | 114,620 | 114,150 | 470 | 115,620 | 112,740 | 2,880 |
| 45 | 182,770 | 180,460 | 2,310 | 187,730 | 173,700 | 14,030 |
| 50 | 261,490 | 256,190 | 5,300 | 273,020 | 241,000 | 32,020 |
| 55 | 350,830 | 338,190 | 12,640 | 373,910 | 315,320 | 58,590 |
| 60 | 435,960 | 410,100 | 25,860 | 493,230 | 397,370 | 95,860 |
| 65 | 500,550 | 462,820 | 37,730 | 634,370 | 487,970 | 146,400 |

| Age | Standard Life Global Equity 50:50 Tracker Fund | | | Standard Life Deposit and Treasury Fund (Secondary Default Arrangement) | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 38 | 90,000 | 90,000 | 0 | 90,000 | 90,000 | 0 |
| 40 | 114,620 | 114,280 | 340 | 106,220 | 105,760 | 460 |
| 45 | 182,770 | 181,070 | 1,700 | 145,010 | 143,150 | 1,860 |
| 50 | 261,490 | 257,590 | 3,900 | 181,400 | 177,810 | 3,590 |
| 55 | 352,430 | 345,250 | 7,180 | 215,540 | 209,940 | 5,600 |
| 60 | 457,470 | 445,680 | 11,790 | 247,570 | 239,730 | 7,840 |
| 65 | 578,810 | 560,730 | 18,080 | 277,620 | 267,350 | 10,270 |

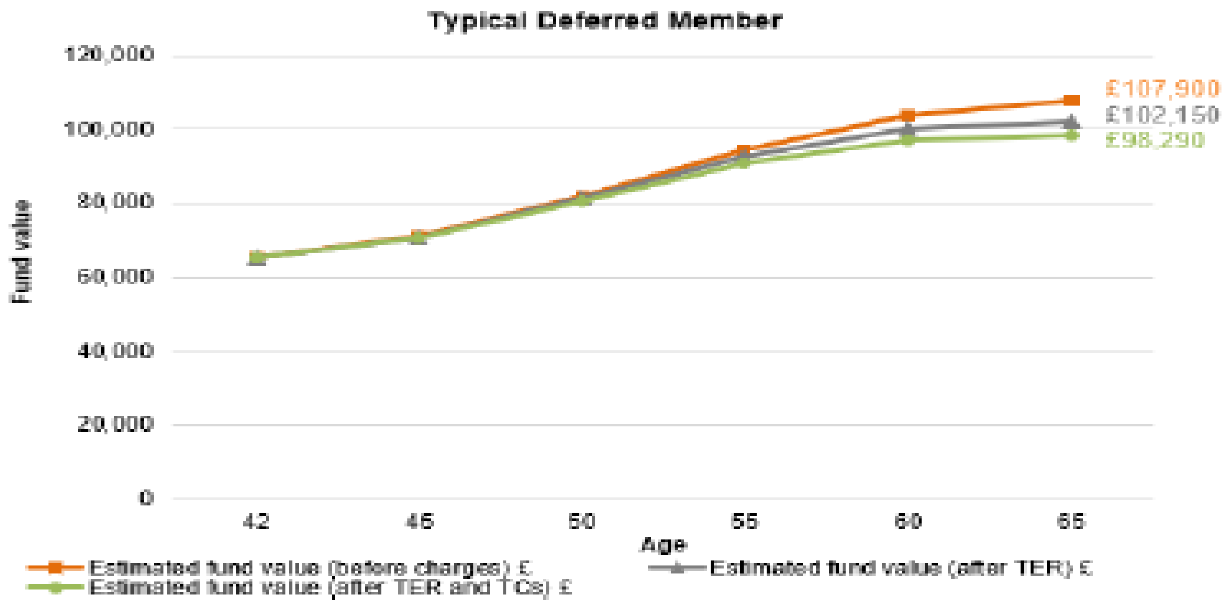
**Typical Deferred Member**

For a deferred member invested in the Multi-Asset Lifecycle strategy (primary default arrangement) and the Standard Life Deposit and Treasury Fund (the secondary default arrangement), the estimated impact of charges on accumulated fund values is shown in the table and charts below. The amounts shown relate to a member aged 42, current fund value of £65,000, no ongoing contributions and a Normal Retirement Age of 65, which reflects a typical deferred member based on the Scheme's current membership.

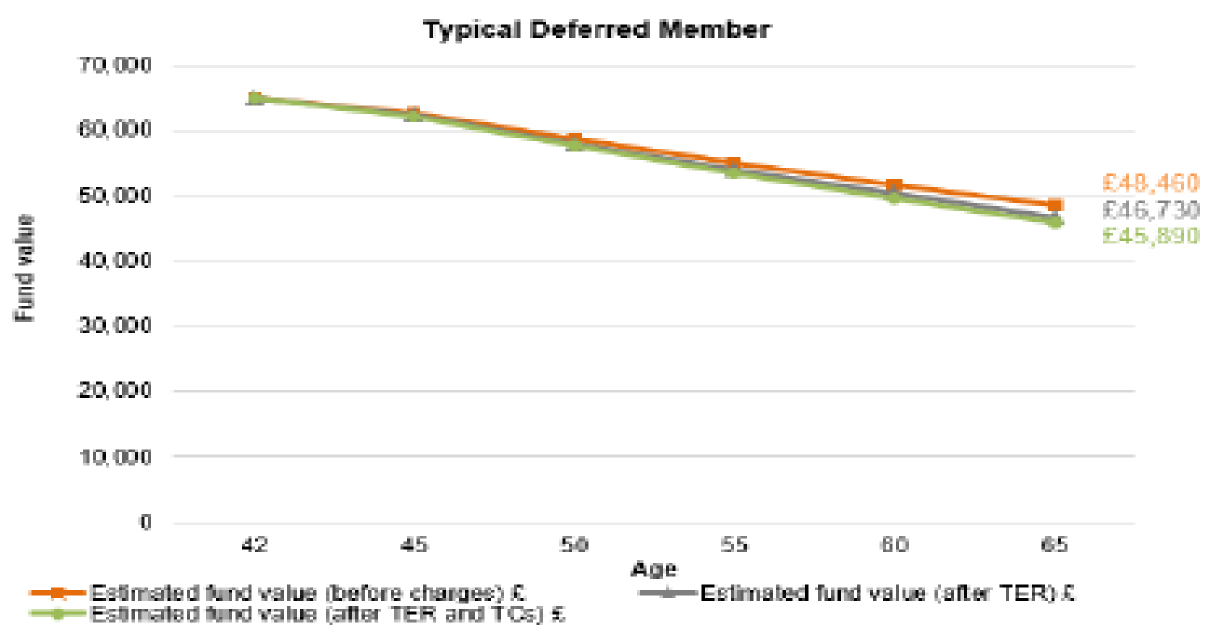
# DC Governance Statement (continued)

**3. Member Borne Charges and Transaction costs (continued)**

Multi-Asset Lifecycle




Standard Life Deposit and Treasury Fund




As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in the fund with the highest charges (SL ASI Global Real Estate Institutional Fund) which has a higher level of costs and charges and the Standard Life Global Equity 50:50 Tracker Pension Fund, which has a lower cost and charge level to the primary default arrangement.

# DC Governance Statement (continued)

## 3. Member Borne Charges and Transaction costs (continued)

Standard Life Deposit and Treasury Fund (continued)

| Age | Multi-Asset Lifecycle Strategy (Primary Default Arrangement) | | | Standard Life Veritas Global Focus Pension Fund | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 42 | 65,000 | 65,000 | 0 | 65,000 | 65,000 | 0 |
| 45 | 70,880 | 70,400 | 480 | 71,890 | 68,980 | 2,910 |
| 50 | 81,870 | 80,410 | 1,460 | 85,030 | 76,160 | 8,870 |
| 55 | 94,130 | 90,580 | 3,550 | 100,570 | 84,100 | 16,470 |
| 60 | 103,860 | 96,950 | 6,910 | 118,960 | 92,860 | 26,100 |
| 65 | 107,900 | 98,290 | 9,610 | 140,700 | 102,530 | 38,170 |

| Age | Standard Life Global Equity 50:50 Tracker Fund | | | Standard Life Deposit and Treasury Fund (Secondary Default Arrangement) | | |
|---|---|---|---|---|---|---|
| | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) | Est. fund value before charges (£) | Est. fund value after charges (£) | Effect of charges (£) |
| 42 | 65,000 | 65,000 | 0 | 65,000 | 65,000 | 0 |
| 45 | 70,880 | 70,520 | 360 | 62,560 | 62,120 | 440 |
| 50 | 81,870 | 80,800 | 1,070 | 58,690 | 57,590 | 1,100 |
| 55 | 94,580 | 92,560 | 2,020 | 55,060 | 53,390 | 1,670 |
| 60 | 109,250 | 106,040 | 3,210 | 51,660 | 49,500 | 2,160 |
| 65 | 126,200 | 121,490 | 4,710 | 48,460 | 45,890 | 2,570 |

*The following assumptions have been made for the purposes of the above illustrations:*

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. *Salary growth is assumed to be in line with inflation.*
4. *Values shown are estimates and are not guaranteed.*
5. *The assumed growth rates (gross of costs and charges) are as follows:*
   - *Standard Life Overseas Tracker Pension Fund 5.5% p.a.*
   - *Standard Life Vanguard FTSE UK All Share Index Pension Fund 5.5% p.a.*
   - *Standard Life Schroder Intermediated Diversified Growth Pension Fund/ Standard Life Ninety-One Diversified Growth Fund 5.0% p.a.*
   - *Standard Life Corporate Bond Fund 1.6% p.a.*
   - *Standard Life Index Linked Bond Pension Fund 0.3%% p.a.*
   - *Standard Life Deposit and Treasury Pension Fund 1.2% p.a.*
   - *Standard Life Global Equity 50:50 Tracker Fund 5.5% p.a.*
   - *Standard Life ASI Global Real Estate Institutional Fund 6.0% p.a.*
6. *Contributions for active members are assumed from current age to 65.*
7. *The transaction costs, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available. Currently, less than 5 years of transaction cost information is available from providers, however we expect data provision to improve over time. For the majority of funds, four years of transaction cost information is available and as such, the transaction costs in the table below (which have been used in providing the above illustrations) reflect the average over the last four years.*

# DC Governance Statement (continued)

**3. Member Borne Charges and Transaction costs (continued)**

**Standard Life Deposit and Treasury Fund (continued)**

| *Fund* | *TER (%)* | *Average Transaction Costs (%)* | *Total Cost (%)* |
|---|---|---|---|
| *Standard Life Overseas Tracker Pension Fund* | *0.10* | *0.14* | *0.24* |
| *Standard Life Vanguard FTSE UK All Share Index Pension Fund* | *0.10* | *0.12* | *0.22* |
| *Standard Life Schroder Intermediated Diversified Growth Pension Fund* | *0.76* | *0.20* | *1.35* |
| *Standard Life Ninety-One Diversified Growth Fund* | *0.80* | *0.55* | *0.38* |
| *Standard Life Corporate Bond Fund* | *0.31* | *0.07* | *0.39* |
| *Standard Life Index Linked Bond Pension Fund* | *0.31* | *0.08* | *0.24* |
| *Standard Life Deposit and Treasury Pension Fund* | *0.16* | *0.08* | *0.24* |
| *Standard Life Global Equity 50:50 Tracker Fund* | *0.11* | *0.06* | *0.17* |
| *Standard Life ASI Global Real Estate Institutional Fund* | *0.77* | *0.68* | *1.45* |

**4. Value for Members assessment**

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

There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Scheme's investment consultant, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges and transaction costs deliver good value for Members. The assessment is relevant to the current membership and covers the year to 31 December 2021. The cost part of the analysis considers the member borne charges and transaction costs. The benefits part of the analysis includes a range of other factors that the Trustee has chosen to consider (including administration, communications and governance) that members do not bear the cost of.

***Costs***

– The costs and charges associated with both default arrangements are well below the charge cap of 0.75% per annum and this information is made available to members through the Scheme website.

– Based on the profile of the Scheme's DC arrangements, the Trustee believes that the explicit charges are competitive when compared to the current market on a like for like basis.

– Despite the fact that there are no explicit charges on the Prudential Cash Accumulation With Profits Fund and the Aviva Conventional With Profits Fund, we believe that members are likely to value the smoothed investment returns that these Funds provide and in light of this, believe that the Scheme continues to provide good value for members. Additionally, the Aviva Conventional With Profits Fund builds its value from annual bonuses. However, future bonuses can vary and are not guaranteed.

***Administration***

– The Trustee regularly monitors the Scheme administration service provided and over the period found that the necessary administration standards were being achieved.

– In addition to this, the Trustee Secretary and Pensions Manager meet with the administrator directly on behalf of the Trustee on an annual basis in order to ensure ongoing adherence to the standards set.

# DC Governance Statement (continued)

## 4. Value for Members assessment

***Communications***

- The Scheme provides members with clear, regular communications regarding any changes to the Scheme's investments, as well as a quarterly summary of fund performance available to members via the website, benefit statements and 'at retirement' communications.
- Scheme literature and information is available through the Scheme website at www.myallenoverypension.com.

***Governance***

- In terms of governance, the Trustee carries out an annual assessment against the DC Code of Practice to ensure that they are meeting best practice. Actions are put in place following this assessment in order to address any gaps and progress is followed over the Scheme year to ensure these are completed.
- The DC section of the Scheme is a regular standing item at quarterly Trustee meetings.

***Investment Choices***

- The Trustee believes the Scheme provides members with an appropriate range of Lifecycle strategies and self-select fund options, covering a range of risk profiles and asset classes.
- The structure of the primary default for the DC section, the Multi-Asset Lifecycle Strategy, reflects how members are expected to access their funds at retirement.
- Investments are monitored by the Trustee against their agreed benchmarks and performance objectives on a quarterly basis.

**Conclusion**

The Trustee's overall assessment described above concluded that:

- based on the charges and transaction costs members pay on the funds available, the DC and AVC Section offers good value for members;
- the other factors assessed as part of the Trustee’s wider value assessment enhance the overall quality of the DC section further; and,
- The DB AVC Members invested in the With Profit Funds are expected to receive additional value from smoothed investment returns and any guarantees applying within the With Profit Funds.

## 5. Processing of Core Financial Transactions

*The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include the investment of contributions, transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries.*

**DC Section**

Capita provide administration services for the DC Section. Members of the Defined Benefit Section of the Scheme who have Additional Voluntary Contributions (“AVCs”) also have access to the DC fund range through Standard Life, with Capita also providing administration services for these funds.

To enable the Trustee to monitor the processing of core financial transactions, the Board receives quarterly stewardship reports from Capita on key aspects of the administration which includes special projects, member statistics, contribution monitoring, a schedule of transactions and performance against the service levels agreed. This report is presented and discussed at each Board meeting to ensure the Trustee can monitor Capita's compliance with the service levels agreed and that core financial transactions are processed accurately and in a timely manner.

## DC Governance Statement (continued)

### 5. Processing of Core Financial Transactions (continued)

**DC Section (continued)**

The Service Level Agreement ("SLA") in place with Capita covers contributions, website maintenance, investment switches, benefit statements, general enquiries and member events (such as retirements and transfers). Under the current SLA, Capita aims to accurately complete all tasks (including administration tasks and pension payroll processing) within at most 15 working days. The SLA success rates reported by Capita over the 12 months to 31 December 2021 for the DC Section were high despite the ongoing Covid-19 pandemic and a third national lockdown across England (above 90% in all cases).

Capita has confirmed that there are processes in place for each type of core financial transaction, to ensure that all transactions are processed accurately and in a timely manner. All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team. There is day-to-day contact with Capita to ensure any issues can be flagged as they arise and dealt with on a timely basis.

In addition, the administration team at Capita is subject to internal audits as well as an annual external audit. The Trustee has up-to-date copies of Capita's AAF report which outlines the administration controls within Capita and these controls will be reviewed on a regular basis as part of a risk register framework. The AAF report did not highlight any areas of concern with regard to the core financial transaction, though it did note that following the data migration project that occurred from the Profund to Hartlink platform during the reporting period, Capita were unable to fully demonstrate the operation of their data migration controls as they did not retain sufficient and appropriate audit evidence for the data migration project. Therefore, Capita’s AAF auditor was unable to conclude on the operating effectiveness and has therefore been required to issue a qualified opinion in line with AAF 01/20.

The Trustees acknowledge that this migration occurred and have satisfied themselves, through discussions with Capita, that they are comfortable that the scheme was not impacted as a result.

Allen & Overy LLP are responsible for ensuring that contributions are paid over to the Scheme promptly, and the Scheme secretary also checks that the contributions are received on time. Capita carries out monthly unit reconciliations.

There were no issues raised regarding Capita’s administration of the DC and AVC Sections or processing of core financial transactions over the year and the Trustee is currently comfortable that appropriate measures are in place to ensure that core financial transactions in the DC and AVC Sections are processed promptly and accurately.

**AVCs with Prudential and Aviva**

Additionally, there are a limited number of legacy AVC policies in place with Aviva and Prudential relating to members of the Defined Benefit section of the Scheme. Both arrangements offer a With Profits Fund to members. No active contributions are being paid into the Aviva arrangement however there are still contributions being paid into the Prudential arrangement.

Information was requested from Prudential. Although the Trustee endeavoured to obtain information from Prudential, information was not received in time for the production of this statement.

Prudential have been unable to provide a governance report to cover the year to 31 December 2022.

**Conclusion**

For the reasons set out above, the Trustee considers that overall, core financial transactions were processed promptly and accurately during 2021.

# DC Governance Statement (continued)

## 6. Trustee Knowledge and Understanding ("TKU")

*Sections 247 and 248 of the Pensions Act 2004 set out the requirement for A trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustee properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.*

The Trustee considers that during the Scheme year, it's compliance with the TKU requirements has been secured by taking the following measures:

- The Trustee board incorporates a range of skills and experience and a diverse mix of backgrounds, including representatives from finance and pensions management. As at 31 December 2021, there were four Employer Appointed Trustee Directors and two Member-Nominated Trustee Directors, as well as a Trustee Secretary. There were several changes made to the Trustee Board over the 12 months to 31 December 2021, including: Three Member-Nominated Trustee Directors terms expired, two did not stand for reappointment and one did with re-appointment from 18th November 2021. An Employee and Employer Nominated Trustee Director were appointed, both with effect from 18th November 2021.
- Over the course of the Scheme year to 31 December 2021, the Trustee Board updated the SIP covering the DC and AVC sections of the Scheme and finalised the changes to the Lifecyle Strategies in Q4 2021. The new SIP was signed in May 2022.
- In addition to this, the Trustee has made several changes to the Scheme's trust deed and rules on several occasions during their terms of office. Consequently, the Trustee Board is familiar with the Scheme's governing documentation.

While the Trustee Directors did not receive DC-specific training during the Scheme year, the following activities were undertaken over the year which covered DC-specific content:

- Discussion with the Trustee's investment consultants regarding responsible investment principles (covering defined benefit and defined contribution), and possible policies and approaches the Trustee may want to adopt.
- Input from their investment consultant on the finalisation of the investment strategy review.
- Legislative and regulatory updates provided by their professional advisers at Trustee meetings.
- Regular updates from the Trustee's investment consultant in relation to investment market activity, particularly given the market volatility experienced during 2021.
- Input from the Trustee's legal advisers on changes to the governing documents of the Scheme required to introduce a new DC contribution structure

Training logs are maintained for all Trustee Directors by the Scheme secretary. Given the professional nature and composition of the Trustee, DC-specific training sessions are provided by the Scheme's investment consultant during Board meetings, when necessary. In addition, the training logs are used to identify training needs as they arise.

The Trustee Directors have also put in place arrangements for ensuring that they take personal responsibility for keeping themselves up to date with relevant developments.

# DC Governance Statement (continued)

## 6. Trustee Knowledge and Understanding ("TKU") (continued)

Trustee Directors are encouraged to supplement their knowledge using the Pensions Regulator's Trustee Toolkit within 6 months of appointment, unless they can demonstrate that they have completed alternative training covering substantially the same material. The Trustee Toolkit is an online learning programme from the Pensions Regulator aimed at trustee of occupational pension schemes. It includes a series of online learning modules developed to help trustee achieve the required level of knowledge and understanding to perform their trustee functions. All Trustee Directors are strongly encouraged to complete the module in the Trustee Toolkit on hybrid schemes (i.e., pension schemes with a DB section and DC section, like the Scheme).

Copies of Scheme documents are provided as part of the onboarding of new Trustee Directors and are reviewed by the Trustee Board on a regular basis, as well as being available to the Trustee Directors electronically.

In addition to the knowledge and understanding of the Trustee board, the Trustee has engaged with their appointed professional advisers regularly throughout the year to ensure that they run the DC Section and AVC arrangements and exercise their functions properly. The following activities were undertaken by the Trustee during the Scheme year:

- Reviewed quarterly administration reports from Capita to monitor service delivery against agreed service levels;
- Reviewed quarterly reporting of each individual investment fund against its benchmark with advice from its investment consultants (Aon), to monitor performance of the Scheme's funds against targeted benchmarks and objectives;
- Finalisation of the Scheme's investment strategy review in conjunction with their investment consultant, including the default strategy and self-select fund range. The agreed changes were also implemented during the Scheme year and the Scheme's SIP was updated post Scheme year end, to reflect these changes. Further details about this review can be found in section 1 of this Statement;
- Held four regular Trustee meetings and additional ad-hoc meetings and conference calls as required. The meetings were attended by professional advisers who provided reporting, training and specialist advice as required, in order to enable the Trustee to properly exercise their function of governance over the Scheme;
- Maintained a regime for proper governance (based on the Pension Regulator's DC Code of Practice) and using this as the basis for governance of the DC Section. This is achieved through an annual assessment of the Scheme against the DC Code of Practice and a Value for Members assessment that directly feeds into the content of this statement; and,
- Completed and submitted a Competition and Markets Authority (CMA) compliance Statement.

# DC Governance Statement (continued)

## 6. Trustee Knowledge and Understanding ("TKU") (continued)

Overall and for the reasons set out above, the Trustee believes it continued to meet the TKU requirements (as set out in the Pensions Act 2004 and the relevant Code of Practice) during 2021, and that the Trustee's combined knowledge and understanding, together with advice available to it, enables the Trustee to properly exercise its function.

Signed on behalf of the Trustee of the Allen & Overy Pension Scheme

-----------------------------------------------------------

Jeremy Parr, Chair of Trustee

Date of signing 25 July 2022

# Actuary's Certification of the Schedule of Contributions

## ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Name of scheme: Allen & Overy Pension Scheme

### Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 1 January 2020 to continue to be met for the period for which the schedule is to be in force.

### Adherence to statement of funding principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 20 July 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

| | | | |
|---|---|---|---|
| Signature: | Darren Charles | Date: | 20 July 2020 |
| Name: | Darren Charles | Qualification: | FIA |
| Address: | The Aon Centre<br>The Leadenhall Building<br>122 Leadenhall Street<br>London<br>EC3V 4AN | Name of employer: | Aon Solutions UK Limited |

# Independent Auditors' Report to the Trustee of The Allen & Overy Pension Scheme

## Report on the audit of the financial statements

### Opinion

In our opinion, The Allen & Overy Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 December 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Trustee's Annual Report and Financial Statements, which comprise: the Statement of Net Assets available for Benefits as at 31 December 2021; the Fund Account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the scheme's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

# Independent Auditors' Report to the Trustee of The Allen & Overy Pension Scheme

**Reporting on other information**

The other information comprises all the information in the Trustee's Annual Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

**Responsibilities for the financial statements and the audit**

***Responsibilities of the Trustee for the financial statements***

As explained more fully in the statement of trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared in accordance with the applicable framework and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the scheme and its environment, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the scheme in accordance with the Pensions Acts 1995 and 2004 and regulations made under them, and codes of practice issued by the Pensions Regulator; and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of override of controls, by the Trustee and those responsible for, or involved in, the preparation of the underlying accounting records and financial statements, and determined that the principal risks were related to posting inappropriate journals to conceal misappropriation of assets and inappropriate adjustments of asset valuations.

# Independent Auditors' Report to the Trustee of The Allen & Overy Pension Scheme

Audit procedures performed by the engagement team included:

- Testing of journals where we identified particular risk criteria.
- Obtaining independent confirmations of material investment valuations and cash balances at the year end.
- Testing estimates and judgements made in the preparation of the financial statements for indicators of bias.
- Reviewing meeting minutes, any correspondence with the Pensions Regulator, and significant contracts and agreements.
- Holding discussions with the Trustee to identify significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.
- Assessing financial statement disclosures, and agreeing these to supporting evidence, for compliance with the Pensions Acts 1995 and 2004 and regulations made under them.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London

Date 27/7/22

# Independent Auditors' Statement about Contributions to the Trustee of The Allen & Overy Pension Scheme

## Statement about contributions

**Opinion**

In our opinion, the contributions payable under the schedule of contributions for the scheme year ended 31 December 2021 as reported in The Allen & Overy Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedule of contributions certified by the scheme actuary on 20 July 2020.

We have examined The Allen & Overy Pension Scheme's summary of contributions for the scheme year ended 31 December 2021 which is set out on page 43.

**Basis for opinion**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the schedule of contributions, and the timing of those payments.

**Responsibilities for the statement about contributions**

*Responsibilities of the Trustee in respect of contributions*

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and, if necessary, revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

*Auditors' responsibilities in respect of the statement about contributions*

It is our responsibility to provide a statement about contributions and to report our opinion to you.

*Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
Date 27/7/22

# Fund Account

## For the year ended 31 December 2021

| | Note | Defined benefit section 2021 £000 | Defined contribution section 2021 £000 | Total 2021 £000 | Total 2020 £000 |
|---|---|---|---|---|---|
| **Contributions and benefits** | | | | | |
| Employer contributions | | **1,014** | **14,495** | **15,509** | 14,403 |
| Employee contributions | | **7** | **6,513** | **6,520** | 5,828 |
| | 5 | **1,021** | **21,008** | **22,029** | 20,231 |
| Transfers in | 6 | **-** | **951** | **951** | 525 |
| Other income | 7 | **-** | **173** | **173** | - |
| | | **-** | **1,124** | **1,124** | 525 |
| Benefits paid or payable | 8 | **(3,751)** | **(1,058)** | **(4,809)** | (4,365) |
| Transfers out to other schemes | 9 | **(3,335)** | **(13,299)** | **(16,634)** | (11,281) |
| | | **(7,086)** | **(14,357)** | **(21,443)** | (15,646) |
| **Net (withdrawals) / additions from dealings with members** | | **(6,065)** | **7,775** | **1,710** | 5,110 |
| **Returns on investments** | | | | | |
| Investment income | 10 | **12,494** | **-** | **12,494** | 2,721 |
| Change in market value of investments | 11 | **12,607** | **46,979** | **59,586** | 45,927 |
| Investment management expenses | 12 | **(109)** | **-** | **(109)** | (104) |
| **Net returns on investments** | | **24,992** | **46,979** | **71,971** | 48,544 |
| **Net increase in the fund during the year** | | **18,927** | **54,754** | **73,681** | 53,654 |
| **Net assets of the Scheme at 1 January** | | **273,414** | **359,784** | **633,198** | 579,544 |
| **Net assets of the Scheme at 31 December** | | **292,341** | **414,538** | **706,879** | 633,198 |

The notes on pages 79 to 100 form an integral part of these financial statements.

# Statement of Net Assets available for Benefits

## As at 31 December 2021

| | Note | Defined benefit section 2021 £000 | Defined contribution section 2021 £000 | Total 2021 £000 | Total 2020 £000 |
|---|---|---|---|---|---|
| **Investment assets:** | 11 | | | | |
| Pooled investment vehicles | 13 | **284,982** | **412,206** | **697,188** | 623,394 |
| Insurance policies | 14 | **800** | **-** | **800** | 1,100 |
| AVC investments | 15 | **4,447** | **-** | **4,447** | 4,664 |
| Cash | | **150** | **-** | **150** | 174 |
| Other investment balances | | **354** | **-** | **354** | 369 |
| **Total net investments** | | **290,733** | **412,206** | **702,939** | 629,701 |
| **Current assets** | 19 | **1,615** | **2,614** | **4,229** | 3,856 |
| **Current liabilities** | 20 | **(7)** | **(282)** | **(289)** | (359) |
| **Total net assets available for benefits at 31 December** | | **292,341** | **414,538** | **706,879** | 633,198 |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on pages 41 and 42 of the Trustee's Annual Report, and these financial statements should be read in conjunction with this report.

The notes on pages 79 to 100 form an integral part of these financial statements.

The Financial Statements on pages 77 to 100 were approved by the Trustee, Allen & Overy Pension Trustee Limited, and signed on its behalf by:

Jeremy Parr

**Trustee Director**

**Date:** 25 July 2022

# Notes to the Financial Statements

## 1. Basis of preparation

The individual financial statements of The Allen & Overy Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised June 2018) the (SORP).

## 2. Identification of the financial statements

The Allen & Overy Pension Scheme ("the Scheme") is an occupational pension scheme established under an irrevocable trust dated 30 December 1983 under English Law and is governed by a Definitive Trust Deed and Rules. The Scheme was established to provide retirement benefits to certain groups of employees of Allen & Overy LLP whose principal office is One Bishops Square, London, E1 6AD.

The Scheme is hybrid having two sections, the Defined Benefit (DB) section which was closed for future accrual from 31 December 2006 and no longer has active members, and the Defined Contribution (DC) section which is open to new members and is used as an auto-enrolment scheme by the Employer.

# Notes to the Financial Statements

## 3. Comparative disclosures for the Fund Account and Statement of Net Assets

### Fund Account

| | Note | Defined benefit section 2020 £000 | Defined contribution section 2020 £000 | Total 2020 £000 |
|---|---|---|---|---|
| **Contributions and benefits** | | | | |
| Employer contributions | | **937** | **13,466** | **14,403** |
| Employee contributions | | **8** | **5,820** | **5,828** |
| | 5 | **945** | **19,286** | **20,231** |
| Transfers in | 6 | **-** | **525** | **525** |
| | | **-** | **525** | **525** |
| Benefits paid or payable | 8 | **(3,612)** | **(753)** | **(4,365)** |
| Transfers out to other schemes | 9 | **(3,138)** | **(8,143)** | **(11,281)** |
| | | **(6,750)** | **(8,896)** | **(15,646)** |
| **Net (withdrawals) / additions from dealings with members** | | **(5,805)** | **10,915** | **5,110** |
| **Returns on investments** | | | | |
| Investment income | 10 | **2,721** | **-** | **2,721** |
| Change in market value of investments | 11 | **32,483** | **13,444** | **45,927** |
| Investment management expenses | 12 | **(104)** | **-** | **(104)** |
| **Net returns on investments** | | **35,100** | **13,444** | **48,544** |
| **Net increase in the fund during the year** | | **29,295** | **24,359** | **53,654** |
| **Net assets of the Scheme at 1 January** | | **244,119** | **335,425** | **579,544** |
| **Net assets of the Scheme at 31 December** | | **273,414** | **359,784** | **633,198** |

# Notes to the Financial Statements

## 3. Comparative disclosures for the Fund Account and Statement of Net Assets

### Statement of Net Assets available for Benefits

| | Note | Defined benefit section 2020 £000 | Defined contribution section 2020 £000 | Total 2020 £000 |
|---|---|---|---|---|
| **Investment assets:** | | | | |
| Pooled investment vehicles | 13 | **266,102** | **357,292** | **623,394** |
| Insurance policies | 14 | **1,100** | **-** | **1,100** |
| AVC investments | 15 | **4,664** | **-** | **4,664** |
| Cash | 11 | **174** | **-** | **174** |
| Other investment balances | 11 | **369** | **-** | **369** |
| **Total net investments** | | **272,409** | **357,292** | **629,701** |
| **Current assets** | 19 | **1,005** | **2,851** | **3,856** |
| **Current liabilities** | 20 | **-** | **(359)** | **(359)** |
| **Total net assets available for benefits at 31 December** | | **273,414** | **359,784** | **633,198** |

## 4. Accounting policies

The principal accounting policies of the Scheme are set out below. These have been consistently applied to all years presented unless otherwise stated.

### Contributions

Employee contributions, including AVCs, are accounted for when they are deducted from pay by the Employer, except for the first contribution due where the employee has been auto-enrolled by the Employer in which case it is accounted for when received by the Scheme unless the right to opt-out has expired.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions and on an accruals basis in the payroll period to which they relate.

All contributions payable under salary sacrifice arrangements are classified as Employer contributions.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable or in the absence of such agreement, when received.

Death benefit contributions are made by the Employer to meet the cost of spouse's death-in-service pensions and are accounted for on an accruals basis in the payroll period to which they relate.

### Receipts under death-in-service policies

Receipts under death-in-service policies in excess of the benefits payable to beneficiaries become part of the Scheme surplus, are recognised on a cash basis and are invested in the DB section.

# Notes to the Financial Statements

## 4. Accounting policies

**Payments to members**

Benefits are accounted for on an accruals basis on the later of the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, and the date of retiring or leaving. If there is no member choice, they are accounted for on the date of retiring, leaving or notification of death.

Pensions in payment, including pensions funded by annuity contracts, are accounted for in the period to which they relate.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, this is shown separately within benefits on an accruals basis.

**Payments to and on account of leavers**

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

Opt-outs are accounted for when the Scheme is notified of the opt-out.

**Expenses**

Some investment management expenses are paid by the Scheme and accounted for on an accruals basis. The majority of investment expenses and all administrative expenses are paid for by the Employer without recharge to the Scheme.

**Investment income**

Income from cash and short term deposits is accounted for on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager. Income that is rolled up in the investment fund and reflected in the value of the units is not separately reported and is accounted for as part of the change in market value of investments. Where income is distributed and immediately reinvested to purchase more units, it is accounted for as investment income.

Receipts from annuity policies are accounted for as investment income on an accruals basis.

**Investments**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investments are included at fair value as described below:

- Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the investment manager.
- Annuities are valued by the Scheme Actuary on a buy-out basis, using the most recent valuation assumptions updated for market conditions at the reporting date.

AVC investments in with profits insurance policies are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

# Notes to the Financial Statements

## 4. Accounting policies

### Presentation currency

The Scheme functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

### Critical accounting estimates and judgements

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. For the Scheme, the Trustee believes that the main estimates and assumptions relate to the valuation of the Scheme's investments and, in particular, those classified in Level 3 of the fair-value hierarchy. See note 16.

## 5. Contributions

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £000 |
|---|---|---|---|
| **Employer contributions** | | | |
| Normal | - | 13,183 | 13,183 |
| Death benefit contributions | 1,014 | - | 1,014 |
| Bonus salary sacrifice | - | 1,312 | 1,312 |
| | 1,014 | 14,495 | 15,509 |
| **Employee contributions** | | | |
| Normal | - | 4,375 | 4,375 |
| AVCs* | 7 | 2,138 | 2,145 |
| | 7 | 6,513 | 6,520 |
| **Total contributions** | 1,021 | 21,008 | 22,029 |

* Additional Voluntary Contributions (AVCs) paid to Prudential with effect from January 2007 are in respect of Employed Early DB Leavers who are now DC Section active members. For the purposes of the financial statements, these contributions and any investment returns gained on these are shown entirely as DB Section AVCs.

# Notes to the Financial Statements

## 5. Contributions

| | 2020 £000 | 2020 £000 | 2020 Total £000 |
|---|---|---|---|
| **Employer contributions** | | | |
| Normal | - | 12,452 | 12,452 |
| Death benefit contributions | 937 | - | 937 |
| Bonus salary sacrifice | - | 1,014 | 1,014 |
| | 937 | 13,466 | 14,403 |
| **Employee contributions** | | | |
| Normal | - | 3,901 | 3,901 |
| AVCs | 8 | 1,919 | 1,927 |
| | 8 | 5,820 | 5,828 |
| **Total contributions** | 945 | 19,286 | 20,231 |

Death benefit contributions relate to Employer contributions to meet the cost of spouse's death in service benefits payable under the Scheme Rules in respect of DC Section members. These contributions are invested along with the DB section contributions.

Employer contributions include contributions in respect of bonus salary sacrifice arrangements made available to certain members by the Employer.

## 6. Transfers in

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £000 |
|---|---|---|---|
| Individual transfers in from other schemes | **-** | **951** | **951** |

| | 2020 £000 | 2020 £000 | 2020 Total £000 |
|---|---|---|---|
| Individual transfers in from other schemes | - | 525 | 525 |

# Notes to the Financial Statements

## 7. Other income

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £ |
|---|---|---|---|
| Death in service insurance receipts | - | 173 | 173 |

There were no death in service receipts in 2020.

## 8. Benefits paid or payable

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £000 |
|---|---|---|---|
| Pensions | **2,941** | **-** | **2,941** |
| Income drawdowns, commutations of pensions and lump sum retirement benefits | **731** | **337** | **1,068** |
| Compensation benefits | **-** | **2** | **2** |
| Lump sum death benefits | **14** | **495** | **509** |
| Purchase of annuities | **65** | **157** | **222** |
| Taxation where allowance exceeded | **-** | **67** | **67** |
| | **3,751** | **1,058** | **4,809** |

| | 2020 £000 | 2020 £000 | 2020 Total £000 |
|---|---|---|---|
| Pensions | 3,094 | - | 3,094 |
| Income drawdowns, commutations of pensions and lump sum retirement benefits | 496 | 358 | 854 |
| Compensation benefits | - | 11 | 11 |
| Lump sum death benefits | - | - | - |
| Purchase of annuities | 22 | 310 | 332 |
| Taxation where allowance exceeded | - | 74 | 74 |
| | 3,612 | 753 | 4,365 |

Compensation benefits in both years relate to payments to members to compensate for a Standard Life UK Select Equity unit pricing error.

Pensions include payments under annuities in the name of the Trustee paid to pensioners directly.

# Notes to the Financial Statements

## 9. Transfers out to other schemes

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £000 |
|---|---|---|---|
| Individual transfers out to other schemes | **3,335** | **13,299** | **16,634** |

| | 2020 £000 | 2020 £000 | 2020 Total £000 |
|---|---|---|---|
| Individual transfers out to other schemes | 3,138 | 8,143 | 11,281 |

## 10. Investment income

| | 2021 Defined benefit section £000 | 2021 Defined contribution section £000 | 2021 Total £000 |
|---|---|---|---|
| Interest on cash deposits and other | **4** | **-** | **4** |
| Income from pooled investment vehicles | **12,237** | **-** | **12,237** |
| Annuity income | **253** | **-** | **253** |
| | **12,494** | **-** | **12,494** |

| | 2020 £000 | 2020 £000 | 2020 Total £000 |
|---|---|---|---|
| Interest on cash deposits and other | 4 | - | 4 |
| Income from pooled investment vehicles | 2,401 | - | 2,401 |
| Annuity income | 316 | - | 316 |
| | 2,721 | - | 2,721 |

Insight pooled LDI funds went through a re-leveraging event in the final quarter of 2021 because the market value of some of the gilts had risen, resulting in them distributing cash amounts back to clients invested in these funds in October and December 2021. This distribution relates to both investment income and change in market value; but Insight are not able to provide this split. Accordingly, solely for the purposes of presentation in these financial statements, all of the distribution of £10.9m has been classified as investment income.

# Notes to the Financial Statements

## 11. Reconciliation of investments

| | Value at 1 January 2021 £000 | Purchases at cost £000 | Sales proceeds £000 | Change in market value £000 | Value at 31 December 2021 £000 |
|---|---|---|---|---|---|
| **Defined Benefit Section** | | | | | |
| Pooled investment vehicles | 266,102 | **115,317** | **(109,301)** | **12,864** | **284,982** |
| Insurance policies | 1,100 | **-** | **-** | **(300)** | **800** |
| AVC investments | 4,664 | **51** | **(311)** | **43** | **4,447** |
| | 271,866 | **115,368** | **(109,612)** | **12,607** | **290,229** |
| Cash deposits | 174 | | | | **150** |
| Other investment balances | 369 | | | | **354** |
| | 272,409 | | | | **290,733** |

Purchases and sales of DB investments during the year include switches of £103,115,000 (2020: £56,398,000).

| | Value at 1 January 2021 £000 | Purchases at cost £000 | Sales proceeds £000 | Change in market value £000 | Value at 31 December 2021 £000 |
|---|---|---|---|---|---|
| **Defined Contribution Section** | | | | | |
| Pooled investment vehicles | 357,292 | **270,717** | **(262,782)** | **46,979** | **412,206** |
| | 357,292 | **270,717** | **(262,782)** | **46,979** | **412,206** |

Purchases and sales of DC investments during the year include switches of £248,902,000 (2020: £22,131,000).

There are no separately identifiable transaction costs as these are incurred through the bid-offer spread on investments within the pooled investment vehicles and charges made within those vehicles.

**Other investment balances**

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Cash in transit | **73** | 85 |
| Income receivable | **281** | 284 |
| | **354** | 369 |

# Notes to the Financial Statements

## 11. Reconciliation of investments

For the Defined Contribution section, investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are received. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

Defined contribution assets include amounts not allocated to members, and therefore available to the Trustee to apply as specified in the Scheme Rules, as follows:

| | **2021 £000** | **2020 £000** |
|---|---|---|
| Assets allocated to Members | **409,658** | 355,024 |
| Assets not allocated to Members | **2,548** | 2,268 |
| | **412,206** | 357,292 |

## 12. Investment management expenses

| | **2021 Defined benefit section £000** | **2020 Defined benefit section £000** |
|---|---|---|
| Administration, management and custody | **109** | 104 |

There are no investment management expenses separately charged to the defined contribution section.

# Notes to the Financial Statements

## 13. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year end comprised:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Defined Benefit Section** | | |
| Equities | **49,437** | 49,036 |
| Bonds | **137,610** | 143,757 |
| Cash | **59,925** | 32,001 |
| Diversified Growth | **26,279** | 30,903 |
| Property | **11,731** | 10,405 |
| | **284,982** | 266,102 |

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Defined Contribution Section** | | |
| Equities | **311,042** | 193,109 |
| Bonds | **42,103** | 37,769 |
| Cash | **7,562** | 7,061 |
| Diversified Growth | **47,503** | 115,804 |
| Property | **3,996** | 3,549 |
| | **412,206** | 357,292 |
| Total pooled investment vehicles investment | **697,188** | 623,394 |

# Notes to the Financial Statements

## 14. Insurance policies

The Trustee holds insurance policies with Aviva that secure the pensions payable direct to specified beneficiaries. These policies are assets of the Trustee and a valuation provided by the Scheme Actuary is included in the Net Assets available for benefits as per FRS 102.

The Scheme held insurance policies at the year end as follows:

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Annuities with Aviva | **800** | 1,100 |

The annuities are valued on a buy-out basis to provide an approximate assessment of the value. The assumptions used were as below:

| | |
|---|---|
| **Discount rate** | Aon Bulk Annuity Market Monitor yield curves – which estimate insurer pricing |
| **Pension increases** | Fixed (either 0% or 5%) |
| **Mortality** | **Base table:** 87% (Males)/98% (Females) of SAPS S3 'All lives' tables<br>**Future improvements:** CMI 2020 Core Projections with smoothing parameter (Sk) of 7.0 and initial adjustments to mortality improvements parameter (A) of 0.5% p.a., with long-term rate of improvements of 1.75% p.a. |

## 15. AVC investments

The AVC investments with Prudential and Aviva shown below are held in the Trustee's name, separately from the Scheme, in the form of individual insurance policies. These secure additional benefits on a money purchase basis for those members electing to pay this type of additional voluntary contribution. Members participating in this arrangement each receive an annual statement as at 31 December confirming the amounts held in their account and the movements in the year.

Employed DB Early Leavers are also able to invest AVCs in the same investments that are available to Defined Contribution Section members. The amounts of such AVCs are shown below.

The Defined Benefit Section was closed for future accrual from 31 December 2006 and no longer has active members. The members that were active Defined Benefit Scheme members at that date (known as Employed DB Early Leavers) were able to join the Defined Contribution Section as active members from 1 January 2007. If any of these members continued to invest existing AVCs, or commenced payment of new AVCs, with Prudential, such amounts are included in the Prudential balances below.

Defined Contribution section AVCs are invested in the Standard Life funds of the members' choice on a money purchase basis. They are included in the Defined Contribution investments shown above in notes 11 and 13 and at the end of the year they were valued at £45,027,000 (2020: £39,961,000).

The Prudential has been unable to provide a valuation as at 31 December 2021 so the 2021 value has been calculated by adjusting the prior year value by cash movements during the year.

# Notes to the Financial Statements (continued)

## 15. AVC investments

The aggregate amounts of DB AVC investments are as follows:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Aviva (With-Profits insurance policy) | **419** | 481 |
| Prudential (With-Profits insurance policy)* | **3,911** | 4,081 |
| Standard Life (DB AVC investment in DC section) | **117** | 102 |
| | **4,447** | 4,664 |

* 2021 estimate

## 16. Fair value determination

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the assessment date.

Level 2 Inputs other than quoted prices included within Level 1 which are observable (i.e. developed) for the asset or liability, either directly or indirectly.

Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy levels as follows:

| **As at 31 December 2021** | **Level 1 £000** | **Level 2 £000** | **Level 3 £000** | **Total £000** |
|---|---|---|---|---|
| **Defined Benefit Section** | | | | |
| Pooled investment vehicles | **-** | **273,251** | **11,731** | **284,982** |
| Insurance policies | **-** | **-** | **800** | **800** |
| AVC investments | **-** | **117** | **4,330** | **4,447** |
| Cash | **150** | **-** | **-** | **150** |
| Other investment balances | **-** | **354** | **-** | **354** |
| | **150** | **273,722** | **16,861** | **290,733** |
| **Defined Contribution Section** | | | | |
| Pooled investment vehicles | **-** | **408,210** | **3,996** | **412,206** |
| | **150** | **681,932** | **20,857** | **702,939** |

# Notes to the Financial Statements

## 16. Fair value determination

| As at 31 December 2020 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **Defined Benefit Section** | | | | |
| Pooled investment vehicles | - | 255,697 | 10,405 | 266,102 |
| Insurance policies | - | - | 1,100 | 1,100 |
| AVC investments | - | 102 | 4,562 | 4,664 |
| Cash | 174 | - | - | 174 |
| Other investment balances | - | 369 | - | 369 |
| | 174 | 256,168 | 16,067 | 272,409 |
| **Defined Contribution Section** | | | | |
| Pooled investment vehicles | - | 353,743 | 3,549 | 357,292 |
| | 174 | 609,911 | 19,616 | 629,701 |

Investments reported under Level 3 are included at fair value based on (a) values estimated by the underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market date for pooled investment vehicles and AVC investments; and (b) values provided by the Scheme Actuary for the insurance policies (note 14).

## 17. Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk**: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk**: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines their investment strategy after taking advice from a professional investment adviser.

### Defined Benefit (DB) Section

In setting the investment strategy, the Trustee has taken account of the Scheme’s liability profile and has adopted a policy of holding 35.5% in assets which broadly match the liabilities. This takes the form of Liability Driven Investment (LDI) funds, which have the ability to invest in swaps and other hedging instruments. The remainder of the Scheme's assets are invested in a diversified portfolio of return seeking assets.

# Notes to the Financial Statements

### Defined Contribution (DC) Section

15 individual funds are made available for members to invest in, covering a range of different asset classes, including: equities, bonds, property, multi-asset and cash, and a range of management styles.

In addition to the 15 individual funds, members are also able to choose from three Lifecyle strategies: a Multi-Asset Lifecycle Strategy (the primary default Lifecycle strategy), an Annuity Lifecycle Strategy and a

Cash Lifecycle Strategy. Each Lifecycle Strategy consists of an accumulation phase, a transition phase (beginning 15 years from a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age).

The Multi-Asset Lifecycle strategy has been designed to be suitable for those not wishing to make investment decisions themselves whilst providing maximum flexibility at retirement for members to take benefits as they choose, for example by transferring to a flexible income drawdown product. The aim of the Multi-Asset Lifecycle strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings though exposure to equity funds and then to gradually diversify their investments in the years approaching retirement, to reduce volatility and provide a broad base of assets from which members can choose the type of retirement benefits they wish to take.

The Scheme has exposure to the risks noted below because of the investments it makes in following the investment strategies set out above. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the arrangements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

### Defined Benefit section risk

The following table summarises the extent to which the various classes of investments are affected by financial risks:

### 17. Investment risk disclosures

| | Credit risk | | Market risk | | | 2021 | 2020 |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Currency | Interest rate | Other price | £'000 | £'000 |
| **Return Seeking Portfolio** | | | | | | | |
| L&G World Equity | ● | ○ | ● | ○ | ● | **12,552** | **12,200** |
| L&G World Equity GBP Hedged | ● | ○ | ○ | ○ | ● | **36,885** | **36,836** |
| BlackRock Diversified Growth | ● | ◐ | ◐ | ◐ | ● | **26,279** | **30,903** |
| Insight Bonds Plus 400 | ● | ● | ◐ | ◐ | ● | **14,217** | **14,039** |
| BlackRock UK Property | ● | ○ | ○ | ○ | ● | **11,731** | **10,405** |
| M&G Inflation Opportunities | ● | ◐ | ○ | ◐ | ● | **13,725** | **13,065** |
| Insight High Grade ABS | ● | ● | ○ | ● | ● | **49,196** | **38,942** |

| | Credit risk | | Market risk | | | 2021 | 2020 |
|---|---|---|---|---|---|---|---|
| **Matching Portfolio** | Direct | Indirect | Currency | Interest rate | Other price | £'000 | £'000 |
| Insight LDI Funds | ● | ● | ○ | ● | ● | **109,668** | **77,711** |
| Insight Liquidity Plus | ● | ● | ○ | ● | ○ | **-** | **31,472** |
| Insight Liquidity | ● | ● | ○ | ● | ○ | **10,495** | **-** |
| L&G Cash | ● | ● | ○ | ● | ○ | **234** | **529** |
| **Total DB section investments** | | | | | | **284,982** | **266,102** |

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly / not at all.

Further information on the Trustee's approach to risk management, credit and market risk is set out below.

### Credit risk

A summary of the exposures to credit risk is given in the following table. The notes below explain how risk is managed and mitigated.

| Credit Risk | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Pooled investment vehicles | | |
| Funds which invest in bonds/derivatives (direct and indirect risk) | 184,620 | 163,437 |
| Other funds (direct risk only) | 100,362 | 102,665 |
| **Total** | **284,982** | 266,102 |

# Notes to the Financial Statements

## 17. Investment risk disclosures

The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to its ownership stake in these pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on the debt instruments held by the pooled investment vehicles.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee relies on advice from their investment consultant pertaining to the operational strength of all existing and new pooled investment managers and on an on-going basis monitors any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangements is as follows:

| | **2021**<br>**£000** | **2020**<br>**£000** |
|---|---|---|
| Unit linked insurance contracts | 49,671 | 49,565 |
| Authorised unit trusts | 11,731 | 10,405 |
| Open ended investment companies | 209,855 | 193,067 |
| Common contractual fund | 13,725 | 13,065 |
| | **284,982** | 266,102 |

Indirect credit risk is mitigated by employing skilled investment managers the Trustee believes to be qualified to manage exposures to different types of counterparty, whether bond holdings or derivative instruments. The Trustee manages the associated credit risk by ensuring that it appoints investment managers who diversify their portfolio to minimise the impact of default by any one issuer.

The Scheme is also subject to credit risk because the Scheme holds cash balances. These cash balances are small and balances held are typically only sufficient to cover the working capital requirements of the Scheme over an agreed time period. Credit risk arising on cash is mitigated in this instance by holding cash within financial institutions which are at least investment grade credit rated.

**Interest rate risk**

The Scheme is subject to interest rate risk because some of the Scheme’s investments are held in bonds and LDI through pooled investment vehicles and cash. The Trustee has set a benchmark for total investments in these Matching Assets of 35.5% of the total investment portfolio. The Matching Portfolio is considered here in isolation.

Under this strategy, if interest rates fall then the value of the bonds and LDI will typically rise to help match some of the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise the bonds and LDI held will typically fall in value, as will the actuarial liabilities, because of an increase in the discount rate. As at 31 December 2021, the Matching Portfolio represented 42.2% of the total investment portfolio (2020: 55.9%).

The exposure to interest rate risk arising from the Matching Portfolio was £120.4m (2020: £148.7m).

## 17. Investment risk disclosures

### Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio, which comprises of passively managed equities, absolute return strategies, property and alternatives. The Scheme manages its exposure to overall price movements by diversifying its assets by geography, asset class, issuer and manager. The Trustee has set a benchmark of 64.5% of assets in return seeking investments.

As at 31 December 2021, these assets held a value of £164.6m (2020: £156.4m).

### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets via pooled investment vehicles. The Trustee does not set limits to overseas currency exposure.

The Scheme's unhedged exposure by major currency at year-end was as follows:

| **Currency Risk** | **2021 £000** | **2020 £000** |
|---|---|---|
| US dollars (USD) | 9,248 | 6,107 |
| Euros (EUR) | (469) | 995 |
| Japanese Yen | 836 | 1,184 |
| Other currencies | 3,114 | 5,901 |
| **Total** | **12,729** | **14,187** |

### Defined Contribution Section Risk

Defined contribution investments are made via a unit-linked insurance policy issued by Standard Life Assurance Limited, with the underlying funds managed by Standard Life Investments (the "Manager"). Information on the Defined Contribution Section's investment strategy can be found on page 93. Some of the risks arising from a fund's financial instruments are foreign currency, interest rate, credit, counterparty, liquidity and market price risk. These risks are summarised below and have been managed through internal policies consistently throughout the year and prior year.

### Foreign currency risk

Some of the assets of a fund may be denominated in foreign currencies, so the value and total returns can be affected by currency movements. In certain circumstances, the Manager may seek to manage exposure to currency movements by using forward currency contracts. Income received in foreign currencies is converted into that fund's base currency at the exchange rates prevailing when the income is received.

### Interest rate risk

Bond yields are affected by market and economic conditions, including inflation rates and government policy. Interest receivable on bank deposits or payable on bank overdrafts will be affected by fluctuations in interest rates.

# Notes to the Financial Statements

## 17. Investment risk disclosures

In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held. In general, if interest rates rise, the income potential of the fund also rises but the value of fixed rate securities will decline. A decline in interest rates will, in general, have the opposite effect.

**Credit and counterparty risk**

Direct credit risk to Standard Life Assurance Limited is mitigated by the firm's Solvency Capital Requirements and the regulatory oversight of the Prudential Regulatory Authority.

Within a fund, all cash exposures are carefully managed to ensure that money is placed on deposit with counterparties that meet the minimum credit rating deemed appropriate for that fund. In certain circumstances, the manager may deliberately invest available cash in securities which have a well-defined and published credit rating but with a higher risk than cash, in order to seek additional rewards.

When a fund transacts with counterparties there is a risk of the counterparty not fulfilling their contractual obligations. The manager's credit committee reviews and monitors the credit risk associated with each counterparty and where necessary collateral may be held by the fund.

**Liquidity risk**

The main liabilities of a fund are the redemption of any units that investors wish to sell and the settlement of stock purchases. The manager reviews the cash and liability position continuously and should an increase in liquidity be required in order to meet redemptions the Manager will sell securities. In addition, the manager will continually monitor market conditions and, where necessary, make changes to a fund's asset mix in order to ensure that redemptions can continue to be met, in line with the funds policy provisions.

**Market price risk**

A fund's investment portfolio is exposed to market price fluctuations which are monitored by the Manager to achieve the investment objectives and policies. Standard Life's funds' investment guidelines are generally designed to mitigate the risk of excessive exposure to any particular type of security or issuer. Some of the market price risks associated with funds investing in different types of financial instruments are set out below:

**Investment in Equities**

The value of a fund that invests in equity and equity related securities will be affected by changes in the stock markets, changes in the value of individual portfolio securities, as well as by economic, political, and issuer specific changes. At times, stock markets and individual securities can be volatile and prices can change substantially in short periods of time. The equity securities of smaller companies are more sensitive to these changes than those of larger companies. This risk will affect the value of such funds, which will fluctuate as the value of the underlying equity securities fluctuates.

**Investment in Fixed Income or Other Debt Securities**

All fixed income or other debt securities have the fundamental risk that the issuer may be unable to make interest payments or repay the capital. Generally, government securities offer the lowest credit risk, which is reflected in their lower yield. Corporate debt offers a higher yield due to its higher risk. However, changes in economic and political outlook affect the value of such securities.

# Notes to the Financial Statements

## 17. Investment risk disclosures

**Investment in property**

The valuation of property is generally a matter of opinion by a valuer rather than fact. The cost to buy and sell property is significantly higher than for other asset classes. For further details please see the guide called Understanding Unit Linked Funds, available on request.

**Investment in money market securities**

Money market instruments include deposits with banks and building societies, as well as governments and large corporations. They also include other investments that can have more risk and return than standard bank deposits. There are circumstances where money market instruments can fall in value since investments in these assets are riskier than cash deposit accounts. The return may also be lower than inflation.

**Investment in Emerging Markets**

Investments in emerging markets carry risks additional to those inherent in other investments. In particular, (i) investment in any emerging market carries a higher risk than investment in a developed market (e.g. investment and repatriation restrictions, currency fluctuations, government involvement in the private sector, investor disclosure requirements, possibility of limited legal recourse); (ii) emerging markets may afford a lower level of information and legal protection to investors; (iii) some countries may place controls on foreign ownership; and (iv) some countries may apply accounting standards and auditing practices which do not conform with the result that financial statements may differ from those that would be expected under internationally accepted accounting principles.

In addition, taxation of interest and capital gains received by non-residents varies among emerging and less developed markets and, in some cases may be comparatively high. There may also be less well-defined tax laws and procedures and such laws may permit retroactive taxation so that a fund could in the future become subject to local tax liabilities that had not been anticipated in conducting investment activities or valuing assets.

## 18. Concentration of Investments

The following investments in pooled funds constituted in excess of 5% of the Scheme’s net assets:

| | **% of assets** | **2021 £000** | **% of assets** | **2020 £000** |
|---|---|---|---|---|
| **Defined Benefit section** | | | | |
| Insight High Grade / Libor Plus Fund Class S/ F | **6.9** | **49,196** | 6.2 | 38,942 |
| Insight Liquidity Plus Fund Class 5 / Class 3 | **-** | **-** | 5.0 | 31,472 |
| Legal & General World Equity Index Hedged Fund | **5.2** | **36,885** | 5.8 | 36,836 |
| **Defined Contribution section** | | | | |
| Standard Life Global Equity Tracker Fund | **3.1** | **21,594** | 20.4 | 128,658 |
| Schroder Intermediated Diversified Growth Fund CR | **3.7** | **26,154** | 9.5 | 60,135 |
| SLNinetyOne DGF Fund | **3.0** | **21,350** | 8.8 | 55,668 |
| SL Overseas Equity Tracker | **35.7** | **225,100** | 2.6 | 16,302 |

# Notes to the Financial Statements

## 19. Current assets

| | **2021 Defined benefit section £000** | **2021 Defined contribution section £000** | **2021 Total £000** |
|---|---|---|---|
| Contributions due from Employer in respect of: | | | |
| Employer | **86** | **1,148** | **1,234** |
| Employee | **1** | **574** | **575** |
| Cash balances | **1,327** | **892** | **2,219** |
| Prepaid pensions | **201** | **-** | **201** |
| | **1,615** | **2,614** | **4,229** |

| | **2020 £000** | **2020 £000** | **2020 £000** |
|---|---|---|---|
| Contributions due from Employer in respect of: | | | |
| Employer | 77 | 1,036 | 1,113 |
| Employee | 1 | 489 | 490 |
| Cash balances | 750 | 1,326 | 2,076 |
| Prepaid pensions | 177 | - | 177 |
| | 1,005 | 2,851 | 3,856 |

Contributions due to the Scheme at 31 December 2021 relate to contributions for the month of December 2020 and were paid in full to the Scheme in accordance with the Schedule of Contributions.

The cash balances above reflect one bank account operated for both the Defined Benefit and the Defined Contribution Sections. Included in the Defined Contribution bank balance is £523,379 (2020: £280,525) which was not allocated to members.

## 20. Current liabilities

| | **2021 Defined benefit section £000** | **2021 Defined contribution section £000** | **2021 Total £000** |
|---|---|---|---|
| Accrued benefits | **7** | **260** | **267** |
| Tax on annual allowances | **-** | **22** | **22** |
| | **7** | **282** | **289** |

| | **2020 £000** | **2020 £000** | **2020 £000** |
|---|---|---|---|
| Accrued benefits | - | 327 | 327 |
| Tax on annual allowances | - | 32 | 32 |
| | - | 359 | 359 |

All current liabilities in the Defined Contribution section are allocated to members.

# Notes to the Financial Statements

## 21. Related party transactions

During the years ended 31 December 2021 and 2020 there were related party transactions in respect of Scheme administrative costs paid by the Employer and not recharged to the Scheme. In addition, the Employer also paid premiums in respect of Death in Service benefits to Legal & General of £226,983 (2020: £205,150) and to AIG of £197,783 (2020: £190,516). Any benefits under these policies were received and paid to beneficiaries by the Scheme.

As at 31 December 2021, the Directors of the Trustee Company consisted of 3 (2020:3) active members of the Defined Contribution section, 1 (2020:1) Defined Benefit pensioner and the remaining 2 (2020:2) Directors were from Allen & Overy LLP, the Principal Employer.

Other than those disclosed elsewhere in the financial statements, there were no other related party transactions.

## 22. Contingent liabilities and contractual commitments

In the opinion of the Trustee, the Scheme had no contingent liabilities or contractual commitments at 31 December 2021 (2020 none).

## 23. Employer-related investments

The Scheme does not hold any employer-related investments as at 31 December 2021 (2020: nil).

## 24. Covid and other matters

Since March 2020, Covid-19 and other, more recent, geopolitical and economic issues, has had a profound effect on domestic and global economies, with disruption and volatility in the financial markets. The Trustee, in conjunction with its advisers, monitors the situation closely and determines any actions that are considered to be necessary. This includes monitoring the Scheme's investment portfolio, the operational impact on the Scheme and the covenant of the Employer. The extent of the impact on the Scheme's investment portfolio, including financial performance, will depend on future developments in financial markets and the overall economy, all of which are uncertain and cannot be predicted. Since the year end, the value of the Scheme's investment assets and investment liabilities may have been impacted. Whilst the Trustee monitors the overall position, it has not, at this time, quantified the change (being an increase or decrease) in market value of investment assets and investment liabilities as markets remain fluid and unpredictable and therefore such an estimate cannot be made.

# Appendix – Statement of investment principles DC Section

## 1 Introduction

**The Allen & Overy Pension Scheme Details**

1.1 The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries and is both defined contribution and defined benefits in nature. This statement relates only to the defined contribution section of the Scheme.

1.2 The Scheme is registered for the purposes of Chapter 2 of Part 4 of the Finance Act 2004.

1.3 Administration of the Scheme is the responsibility of the Trustee, who are also responsible for the investment of the Scheme's assets in accordance with the choices made by members.

**Pensions Act**

1.4 Under Section 35 of the Pensions Act 1995 (as amended by Section 244 of the Pensions Act 2004), Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment policy pursued by the Trustee of the Allen & Overy Pension Scheme ('the Scheme').

1.5 The Trustee shall consult with the employer, Allen & Overy, on changes to the investment policy set out in this document. However, the ultimate power of responsibility for deciding investment policy lies with the Trustee.

1.6 Before preparing this document, the Trustee has obtained and considered written advice from the Scheme's investment consultants (Aon). This written advice considers the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

1.7 The Trustee will review this document, in consultation with the Scheme's investment consultants, at least every three years and without delay after any significant change in investment policy.

## Appendix – Statement of investment principles (continued)

1.8 Before preparing this document, the Trustee has had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in their investment policy.

**Financial Services and Markets Act 2000**

1.9 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to the Scheme's appointed investment managers, which may include an insurance company or companies. The Scheme's investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

# 2 Division of Responsibilities

2.1 The Trustee has ultimate responsibility for decision making on investment matters. To ensure that such decisions are taken efficiently, the Trustee uses other bodies either through direct delegation or in an advisory capacity. The Trustee recognises that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively.

The Trustee also recognises that where it takes investment decisions (for example, when making changes to the lifestyle strategies or the self-select fund options) it must have sufficient expertise and appropriate training to be able to evaluate critically any advice it takes. The roles of each group are shown below:

**Trustee**

2.2 The Scheme Trustee responsibilities include:

**a.** Reviewing periodically the content of this Statement and modifying it if deemed appropriate, in consultation with the Scheme's investment consultants.

**b.** Reviewing the suitability of funds made available to members.

**c.** Assessing the past performance of the available funds, by means of regular reviews, along with the forward-looking prospects in consultation with the Scheme's investment consultants.

**d.** Considering the member borne charges and (where available) transaction costs applying on the funds and assessing whether these represent good value for members.

**e.** Reviewing periodically the appointment of the platform provider (Standard Life).

**f.** Appointing and monitoring the administrator and advisers of the Scheme.

**g.** Consulting with the employer before amending this Statement.

**h.** Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

**Platform Provider**

2.3 The Scheme's platform provider's responsibilities include:

**a.** Providing the Trustee with quarterly statements of the assets and factsheets on the underlying funds.

**b.** Ensuring that the underlying funds are priced correctly.

**Member**

2.4 Each member of the Scheme has responsibility for selecting his/her investments from the funds made available by the Trustee and for monitoring their continued suitability to the member's personal circumstances.

## Appendix – Statement of investment principles (continued)

**Investment Consultant**

2.5 The Scheme's investment consultant's responsibilities include:

**a.** Advising the Trustee, on:

- how any changes in the Scheme's investment managers' organisations or any other issues related to the investment managers could affect the interests of the Scheme.
- the continued suitability of the investment funds.
- the continued suitability of the platform provider.
- how any changes in the investment environment could either present opportunities or issues for the Scheme.

**b.** Undertaking project work as requested including:

- advising on the selection of new funds for the Scheme.
- providing information and data on member borne charges, including assessing the charges on the default arrangement against the charge cap, and (where available) transaction costs applying to the funds, to include in the annual Chairman's statement in the Trustee Report & Accounts.
- providing information and advice on the level of security afforded to the Scheme's assets, including the level of coverage from the Financial Services Compensation Scheme
- providing information, as relevant, on other investment issues pertinent to the Trustee.

**c.** Participating with the Trustee in periodic reviews of this Statement.

# 3 Objectives and Long-Term Policy

**Objectives**

3.1 The Trustee's objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth which, together with new contributions from members and the employer, will provide a fund with which to access benefits at retirement.

3.2 Members' investment needs change as they progress towards retirement age. Younger members, e.g. those with more than 10 years to retirement, have a greater need for real growth to attempt to ensure their investment accounts keep pace with inflation and, if possible, salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may come back from any temporary low. Older members, e.g. those with 10 or less years to retirement, will in general require an increasing degree of stability in the level of benefit which may be accessed with their account at retirement.

3.3 Members also have different levels of risk tolerance, regardless of age, and differing levels and types of personal investments. Therefore, members should have the facility to reflect their own preferences in this regard, whilst maintaining a suitable spread of investments.

**Risk**

3.4 The Trustee have considered risk from a number of perspectives, including:

- The risk that the investment return over members' working lives does not keep pace with inflation – "inflation risk".
- The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured – "conversion risk".
- The risk that members end up with insufficient funds at retirement with which to secure a reasonable income – "shortfall" or "opportunity cost" risk.
- The risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed – "manager risk".
- The risk of a fall in the value of the members' fund – "capital risk".

3.5 The funds offered through the Scheme have been chosen, in part, to help members mitigate these risks.

## Appendix – Statement of investment principles (continued)

**Policy**

3.6 The Trustee policy is to seek to achieve the objectives through providing a suitable range of funds.

3.7 For those members who are willing to accept a greater level of volatility in pursuit of potentially achieving a higher value of their investment account, a range of passive and active equity funds, diversified growth funds and a property fund are available.

3.8 For those members who are less comfortable with higher volatility, there are a range of other asset classes available for investment including bonds, and money market funds.

3.9 All of the investment funds available trade daily and as such are readily realisable.

3.10 The investment managers or the Trustee will not borrow money or act as a guarantor for the purpose of providing liquidity (unless it is temporary).

3.11 In addition to this, the Trustee has put in place three open 'lifecycle' arrangements, designed for members targeting different forms of benefit at retirement. These are described in section 5.

# 4 Responsible Investment

**Financially Material Considerations**

4.1 In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance ("ESG") factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment consultants when setting the Scheme's investment strategy (including the default arrangement), when selecting managers and when monitoring their performance.

4.2 The Trustee further acknowledges that an understanding of financially material considerations, including ESG factors (such as climate change) and risks related to these factors, is necessary to allow them to discharge their fiduciary duties in a prudent manner.

The Trustee is taking the following steps to monitor and assess ESG-related risks and opportunities:

- The Trustee communicates the expectation to their investment managers that they should take into account ESG considerations in the selection, retention and realisation of investments.
- The Trustee will undertake periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's investment strategy.
- As part of ongoing monitoring of the Scheme's investment managers, the Trustee will use ESG ratings information provided by their investment consultants, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG in their management of the funds available for investment through the Scheme.
- In fund selection exercises, ESG integration and stewardship quality will be a topic of explicit discussion between the Trustee, the advisers and prospective investment managers.
- The Trustee will include ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring.

# Appendix – Statement of investment principles (continued)

**Stewardship – Voting and Engagement**

4.3 The Trustee invests in pooled funds through a platform provider, and as such have delegated responsibility for the selection, retention and realisation of investments to the Scheme's investment managers in whose funds they invest.

4.4 The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

4.5 As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee communicates these expectations to their investment managers.

4.6 The Trustee regularly reviews the suitability of the Scheme's appointed investment managers and takes advice from its investment consultants with regards to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

4.7 The Trustee reviews the stewardship activities of its investment managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

4.8 The Trustee will engage with its investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

4.9 The Trustee expects the Scheme's appointed investment managers to comply with the United Nations Global Compact and, additionally, the Trustee will identify key areas of concern (including, but not limited to, climate change risks) and will level scrutiny on its investment managers accordingly. It is the expectation of the Trustee that the Scheme's investment managers will prioritise and actively monitor for these risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The transparency for voting should include voting actions and rationale with relevance to the Scheme.

The Trustee recognises that its collaborative behaviours can further work to mitigate the risks identified above, for the Scheme.

4.10 From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

**Members' Views and Non-Financial Factors**

4.11 In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

The underlying funds that make up the default arrangement and other self-select funds should not apply personal ethical or moral judgements as the basis for an investment decision.

The Trustee recognises the importance of offering a suitable range of investment options for members, and where applicable will seek to discuss any member feedback received, to inform decisions in relation to the default arrangement and range of funds.

# 5 Investment Manager Arrangements

**Manager Structure**

5.1 The Scheme has appointed a Platform Provider (Standard Life) through which they will access a number of pooled funds, managed by investment managers, all of whom are remunerated on an ad valorem basis.

5.2 The Trustee policy is to obtain advice on whether the range of pooled funds are satisfactory, as required by the Pensions Act at least every three years.

5.3 The investment managers are responsible for having regard to the need for the diversification of investments so far as is appropriate and also to the suitability of investments.

5.4 The investment managers, at their discretion, but within guidelines set out in the respective funds' prospectus, are responsible for implementing changes in the asset mix and selecting securities within each asset class.

**Arrangements with Investment Managers**

5.5 Before appointment of a new investment manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustee will express its expectations to the investment managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

5.6 The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers by other means (where necessary), and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where investment managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the investment manager where this is deemed necessary.

5.7 There is typically no set duration for arrangements with investment managers, although the continued appointment all for investment managers will be reviewed periodically, and at least every three years.

5.8 The Trustee believes they have a duty as institutional investors to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies who contribute significant negative externalities to society, regardless of whether the action may be financially material.

# Appendix – Statement of investment principles (continued)

**Performance Objectives**

5.9 Whilst the Trustee is not involved in the pooled funds' day to day method of operation and therefore cannot directly influence the performance target, they will assess performance and review the managers included on the Platform on a periodic basis. The benchmarks and objectives of each fund are provided in the table below:

| Fund | Benchmark | Objective |
|---|---|---|
| SL LF LionTrust UK Equity Fund | FTSE All-Share Index | The Fund aims to produce a total return in excess of the FTSE All-Share Index over the long-term through investment in a diversified portfolio, with at least 80% of the Fund invested in UK equities. |
| SL Vanguard FTSE UK All Share Index Pension Fund | FTSE All-Share Index | To track its benchmark within reasonable tolerance ranges. |
| SL Veritas Global Focus Pension Fund | MSCI World Index | To achieve returns of OECD G7 inflation plus 6% p.a. |
| Standard Life Global Equity 50:50 Tracker Pension Fund | 50% FTSE All-Share Index; 50% MSCI World ex UK Index | To track its benchmark within reasonable tolerance ranges. |
| Standard Life Overseas Tracker Pension Fund | MSCI World ex UK Index | To track its benchmark within reasonable tolerance ranges. |
| SL Vanguard Emerging Markets Stock Index Pension Fund | MSCI Emerging Markets Index | To track its benchmark within reasonable tolerance ranges. |
| SL Schroder Intermediated Diversified Growth Pension Fund | CPI + 5% p.a. | To achieve CPI + 5% p.a. over full market cycles, typically considered as rolling five to seven-year periods (net of fees) |
| SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund | CPI +4% p.a. | To achieve CPI + 4% p.a. over full market cycles, typically considered as rolling five year periods |

# Appendix – Statement of investment principles (continued)

| Fund | Benchmark | Objective |
|---|---|---|
| Standard Life Pooled Property Pension Fund (closed to new investments) | IPD UK PPFI All Balanced Funds Median | To outperform its benchmark by 1.0% p.a. |
| SL ASI Global Real Estate Institutional Pension Fund | N/A | To achieve a return of 5% p.a. over rolling three year periods. |
| Standard Life Index Linked Bond Pension Fund | FTSE British Government Index-Linked Over 5 Years Index | To outperform its benchmark by 0.3% p.a. |
| Standard Life UK Fixed Interest 60:40 Pension Fund | 60% Merrill Lynch Sterling UK Non-Gilt All Stocks Index; 40% FTSE British Government Over 15 Years Index | To outperform its benchmark by 0.5% p.a. |
| SL Vanguard UK Investment Grade Bond Index Pension Fund | Barclays Global Aggregate UK Non-Government Float Adjusted Bond Index | To track its benchmark within reasonable tolerance ranges. |
| Standard Life Corporate Bond Pension Fund | ABI (Pension) Sterling Corporate Bond Sector | To outperform its benchmark by 0.80% over a 3-year period |
| Standard Life Deposit and Treasury Pension Fund | Sterling Overnight Interbank Average Index (SONIA) | To provide returns in line with short-term money market rates. |

5.10 The investment managers should achieve the principal objective in the majority of three-year periods under consideration, with the exception of the SL Veritas Global Focus Pension Fund which aims to achieve its performance objective over a three to five year period as well as the SL Schroder Intermediated Diversified Growth Pension Fund and SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund which both aim to achieve their performance objectives over rolling five year periods.

It is not necessarily expected that active managers will achieve the targets in every three-year period. However, they should demonstrate that the skills exercised on the funds are consistent with these targets, and that the level of risk is appropriate. The investment managers will exercise their powers of discretion in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

## Appendix – Statement of investment principles (continued)

5.11 While the investment managers may use derivative instruments within their pooled funds, the Trustee will not invest in derivative instruments except to contribute to a reduction of risks or facilitate efficient portfolio management.

**Lifecycle strategies**

5.12 In addition to the individual funds listed above, the Scheme makes available three lifecycle strategies: a Multi-Asset Lifecycle, an Annuity Lifecycle and a Cash Lifecycle. The default lifecycle strategy is the Multi Asset Lifecycle and is designed to be suitable for those not wishing to take investment decisions themselves whilst providing maximum flexibility at retirement for members to take benefits as they choose.

5.13 Each strategy consists of an accumulation phase, a transition phase (beginning 15 years from a member's planned retirement age) and a pre-retirement phase (beginning five years from a member's planned retirement age).

5.14 The accumulation phase is identical in each lifecycle strategy and is exclusively invested in equity funds, namely: 95% in the SL Overseas Tracker Pension Fund and 5% in the SL Vanguard FTSE UK All Share Index Pension Fund.

5.15 The transition phase is also identical in each strategy. The transition phase is designed to move from high growth to lower but more stable growth in the run-up to retirement. A portion of funds is gradually switched to bond and Diversified Growth Fund investments such that, when a member is five years away from their planned retirement age, their investments will be split broadly as follows:

- 31% in the Standard Life Overseas Tracker Pension Fund
- 2% in the SL Vanguard FTSE UK All Share Index Pension Fund
- 11% in the SL Schroder Intermediated Diversified Growth Pension Fund
- 11% in the SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund
- 33% in the Standard Life Corporate Bond Pension Fund
- 13% in the Standard Life Index Linked Bond Pension Fund

5.16 The pre-retirement phase for the Multi-Asset Lifecycle strategy continues to invest in the same funds as the transition phase, but with a further gradual reduction in risk level. By the time a member reaches their planned retirement age their investments will be split broadly as follows:

- 26% in the Standard Life Overseas Tracker Pension Fund

## Appendix – Statement of investment principles (continued)

- 1% in the SL Vanguard FTSE UK All Share Index Pension Fund
- 9% in the SL Schroder Intermediated Diversified Growth Pension Fund
- 9% in the SL Ninety One Global Multi-Asset Sustainable Growth Pension Fund
- 35% in the Standard Life Corporate Bond Pension Fund
- 20% in the Standard Life Index Linked Bond Pension Fund

The Multi-Asset Lifecycle strategy has been designed for members who wish to retain flexibility in the form in which they take their benefits at retirement, for example by transferring to a flexible income drawdown product.

5.17 The pre-retirement phase for the Annuity Lifecycle strategy gradually switches out of the funds used in the accumulation and transition phases, and into mixed bonds and money market funds. By the time a member reaches their planned retirement age the investments will be split 75% in the Standard Life Index Linked Bond Pension Fund and 25% in the Standard Life Deposit and Treasury Pension Fund.

The Annuity Lifecycle strategy has been designed to be suitable for members who take the maximum 25% tax-free cash at retirement and purchase an annuity with the remainder of their account.

5.18 The pre-retirement phase for the Cash Lifecycle strategy gradually switches out of the funds used in the accumulation and transition phases, and into money market funds. By the time a member reaches their planned retirement age the investments will be 100% invested in the Standard Life Deposit and Treasury Fund.

The Cash Lifecycle strategy has been designed to be suitable for members who wish to take the whole of their account as a cash lump sum at retirement.

5.19 Switching takes place linearly on a monthly basis.

# 6 Monitoring and Implementation

**Monitoring**

6.1 The appointment of the platform provider will be reviewed by the Trustee from time to time. In addition, the Trustee will review the performance of each of the funds by means of a quarterly report produced by the Scheme's platform provider and quarterly investment monitoring reports provided by the Scheme's investment consultants.

6.2 Funds may be replaced, for example, if:

**a.** They fail to meet the performance objectives set out in Section 5; and/or

**b.** The Trustee believes that the manager is not capable of achieving the performance objectives in the future. In this respect, they will look for advice from the Scheme's investment consultants.

6.3 Under the Scheme's rules, the Trustee may replace a fund, including transferring existing investments, without prior agreement or consultation with members if they believe this is appropriate.

6.4 The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the Trustee's policies, including those on non-financial matters. This includes monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultants.

6.5 The Trustee receives quarterly reports and verbal updates from the investment consultants on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the investment managers over 3-year periods.

6.6 The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

6.7 The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the Trustee's policies.

## Appendix – Statement of investment principles (continued)

**Cost Transparency**

6.8 The Trustee is aware of the importance of monitoring its investment managers' total costs and the impact these costs can have on the overall value of members' funds. It is the Trustee's view that long term performance, net of fees, is the most important metric on which to evaluate its investment managers.

6.9 The Trustee therefore believes it is important to understand all the different costs and charges, which are paid by members (through a deduction from the unit price). These include:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- implicit charges, such as the portfolio turnover costs (transaction costs) borne within a fund. The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.

6.10 Other costs of providing DC benefits (e.g. administration, communication, and adviser costs) are not charged to members.

6.11 The Trustee collects information on these member-borne costs and charges on an annual basis and sets these out in the Scheme's annual Chair's Statement which is made available to members in a publicly accessible location.

6.12 The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends.

6.13 No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects its investment consultants to highlight if these costs and charges appear unreasonable when they are collected as part of the annual Chair's Statement exercise and investigate as required.

6.14 The Trustee assesses value for money received by members from the Scheme, including its investment managers, on a regular basis as part of the annual Chair's Statement exercise.

# 7 Risk Management

7.1 In addition to the investment risks outlined in section 3.4, the Trustee recognises a number of other risks involved in the investment of the assets of the Scheme:

- Mismatching risk – addressed through the provision of a range of funds with differing risk characteristics.
- Inappropriate investments – addressed through obtaining advice on the suitability of the funds used.
- Security of assets risk – addressed through obtaining advice on the level of security of the Scheme's assets, in relation to both the platform provider and the underlying funds. This advice includes an assessment of the circumstances when the Trustee may be eligible to make a claim under the Financial Services Compensation Scheme. Similar advice is provided whenever new funds are selected.

7.2 The Trustee continues to monitor these risks. The Trustee also maintains a Risk Register to consider a broad spectrum of possible risks and suitable mitigation strategies.

# 8 Default Arrangements

**Primary Default Option**

8.1 The Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated the Multi-Asset Lifecycle strategy (outlined in the section 5) as the default arrangement for the Scheme.

8.2 The Multi-Asset Lifecycle strategy has been constructed following analysis of the membership of the Scheme. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of member in order to test alternative investment strategies. The design of the Multi-Asset Lifecycle strategy reflects this analysis, having carried out multiple simulations of future economic and investment scenarios, and also taking into account the various options that members will have regarding the way in which they draw their benefits in retirement.

8.3 The aim of the Multi-Asset Lifecycle strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings though exposure to equity funds and then to gradually diversify their investments in the years approaching retirement to reduce volatility and provide a broad base of assets from which members can choose the type of benefits they wish to take.

8.4 The asset allocation throughout the Multi-Asset Lifecycle strategy and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years.

8.5 The outcomes of the Multi-Asset Lifecycle strategy will be reviewed periodically with reference to the manner in which members take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

**Secondary Default Option**

8.6 A second default arrangement was created in April 2020 when trading in the Standard Life Pension Property Fund was suspended and it ceased accepting new contributions, as a result of the Covid-19 pandemic. This fund is only available to members as a self-select option.

Rather than leaving future contributions intended for the Property Fund uninvested, the Trustee decided to redirect these contributions into the Standard Life Deposit and Treasury Fund, until the suspension of the Property Fund was lifted.

As a result of such action, the Standard Life Deposit and Treasury Fund is classified as a default investment option for regulatory reporting and monitoring purposes.

8.7 The Trustee would have preferred to map the affected contributions to the Multi-Asset Lifecycle strategy (the primary default option), as this would allow members who had selected the Property Fund to retain similar growth potential for their affected contributions. However, members can only

# Appendix – Statement of investment principles (continued)

choose to be invested in a Lifecycle strategy or in a selection of self-select options, not a combination of both and therefore, the Trustee chose the Standard Life Deposit and Treasury Fund for affected contributions. At that time, the Trustee considered the Standard Life Deposit and Treasury Fund to be the most appropriate investment option in which to temporarily redirect the contributions intended for the Property Fund.

The Standard Life Deposit and Treasury Fund has historically experienced low levels of volatility and the Trustee understands it is most likely best placed to protect the value of these contributions from the funds available, on a short-term basis. The Trustee believes this course of action to be in the best interests of members.

It was also recognised that the Standard Life Deposit and Treasury Fund offers a relatively low member charge of 0.16% p.a. at the time of writing.

8.8 The Trustee's policies in relation to the default arrangements in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the previous sections.

Chair of Trustee

12 May 2022

Date

On behalf of the Trustee of the Allen & Overy Pension Scheme