Trustees' Report (continued)

Statement Regarding DC Governance

Introduction

This Statement has been prepared by the Trustees of The Morton Fraser LLP Retirement Benefits Scheme ('the Scheme') in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). It sets out how the Trustees have met the statutory defined contribution (DC) governance standards during the Scheme year ended 30 April 2023 in respect of all the DC benefits held in the DC section and the Additional Voluntary Contributions (AVC) arrangements.

The Trustees have reviewed and assessed systems, processes and controls across key governance functions to determine whether these are consistent with those set out in the Pensions Regulator's:

- Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits.
- Regulatory guidance for defined contribution schemes.

Governance requirements apply to defined contribution (DC) pension arrangements to help members achieve a good outcome from their pension savings. The Morton Fraser LLP Retirement Benefit Scheme (the Scheme) has a DC element, but is not open to new members' contributions. The inflexibility of the Scheme and its cost of operation was a significant factor in the employer, in consultation with the Trustees, closing the Scheme to further members' contributions. The Scheme has a guaranteed minimum pension (GMP) element. It is hence a hybrid scheme - it holds funds comprising both members' contributions made prior to the Scheme being closed to further members' contributions and continuing contributions made by the employer to fund the GMP element of the Scheme. That GMP underpin is a key factor in the continuation of the Scheme and an important feature in assessing its value to those DC members who have the benefit of it.

In November 2023 the Trustees completed a Value for Members assessment.

The key conclusions were as follows:

- The costs and charges paid by members in the current arrangements are higher than the costs and charges that would be paid by members under the comparator arrangements.
- Over the past 1 year, 3 years and 5 years, the default arrangement used by the Scheme has delivered materially lower returns against the comparators, across all age profiles. This is partly explained by the higher bond allocation in the current default arrangement versus the comparators in the final years before retirement.
- In assessing the governance and administration of the current arrangements against the seven key metrics, Broadstone conclude that the Scheme is performing at a satisfactory level for three metrics, however believe that the Trustees should consider the further actions noted in the assessment for three of the metrics.
- Broadstone's overall assessment is that the current arrangements do not provide value for members and recommend the Scheme begins to consider the feasibility of transferring benefits to one of the comparator arrangements.
    - Whilst the current arrangements are judged not to provide value for members versus the comparator schemes, it would not be possible to transfer the existing benefits in their current form. In order to transfer the benefits to a comparator scheme the existing benefit structure would have to be changed.
    - If the feasibility of transferring the benefits to one of the comparator arrangements determines it is not likely to happen in the short term, the Scheme should consider what changes could be made to the current arrangements in order to improve efficiency.

Trustees' Report (continued)

Administration Standards & Core Financial Transactions

- The Trustees relied upon the Scheme's administrator, Mercer, to ensure that core financial transactions relating to the Scheme were processed promptly and accurately during the Scheme Year.
- As the Scheme is closed to new members' contributions, the number of financial transactions relating to the DC element of the Scheme are limited. They include the processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.
- The employer's finance department liaises with the administrator in this regard on a day to day basis, and the Trustees monitor the performance of the administrator in liaison with the employer's finance team.
- A representative of the administrators regularly attends meetings of the Trustees, and the Trustees have the ability to discuss the administrators' performance with the administrators.

Using information provided by the administrators, the Trustees are satisfied that, over the period covered by this statement:-

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

In accordance with regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustees have reviewed the core financial transactions to ensure that they continue to be processed promptly and accurately. There have been no notifiable events arising during the year.

Costs and Charges borne by members

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustees are required to calculate the charges and transaction costs paid by members and assess the extent to which these charges represent good value for money.

Based on their value for members assessment, the Trustees concluded that the current funds adopted have higher charges versus fund options in the larger comparator schemes.

Within this Statement, the stated charges exclude any costs, e.g. administration costs, since these are met by the Employer, and not the members.

Explicit charges paid by members are the fund annual management charges and any additional fund expenses. These are collectively known as the total expense ratio and range from 0.40% p.a. to a maximum of 1.04% p.a. depending on the fund selected. These charges are levied on the amount held in each member's pension account.

All investment funds have "transaction costs" which are not charged directly to the investor (member). However, these charges are taken from the fund and therefore reflected in the performance of the fund and in the overall return received by the investor (member).

Different funds have different levels of transaction costs depending on the number of assets that are bought or sold within the fund. It is generally expected that the more actively a fund buys and sells assets, the higher the transaction fees will be.

A full list of charges for the Phoenix Life funds in the current arrangements (including the transaction charges) during the period from 1 May 2022 to 30 April 2023 is included below.

Trustees' Report (continued)

Fund	Total Expense Ratio*	Transaction Costs**	Total
Current Funds			
Phoenix CIS Diversified Growth Fund	1.04%	0.52%	1.56%
Phoenix CIS Active Balanced Bond Fund	0.52%	0.05%	0.57%
Phoenix CIS Active Cash Fund	0.40%	0.05%	0.45%

Source: Phoenix Life

*Total expense ratio (TER) includes annual management charge and incidental fund expenses.

**Transaction costs relate to the friction costs incurred by fund investments over the past year to 30 April 2023, due to investment dealing activity.

The 2023 Value for Members review determined that the fees charged to members were higher versus larger master trust arrangements.

The default has, as indicated above, been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement date and in which fund they are invested. The Scheme is closed to new contributions and is not being used by the employer to meet the employer's duties under the automatic enrolment legislation and hence the member borne charges for the Scheme's default arrangement are not required to comply with the charge cap.

Details of the annual returns over 1, 3 and 5 years are contained in **Appendix A**.

An illustration of the impact of charges on different investment strategies is set out in **Appendix B**.

A proportionate approach has been adopted for assessing the AVC arrangements on the basis that the AVC holdings are relatively modest. The Trustees have taken action to reduce charges for members with AVC holdings where possible, to ensure that these provide good value for members.

The Default Investment Arrangement

A default investment arrangement is the investment fund into which members' pension contributions are directed where members have not made a choice as to where they want their pension savings invested.

The Scheme is closed to further members' contributions and is not used as a Qualifying Scheme for auto-enrolment. Members of the Scheme who have not chosen a specific investment option are placed into the Scheme's default arrangement, which comprises a range of funds within Phoenix Life Limited (the default arrangement). The investments within the default arrangement include diversified growth funds, government and corporate bonds and cash funds.

The annual management fees (along with transaction fees) payable by members are covered in the table above. Members do not pay towards any of the administration costs of running the Scheme, these are met by the employer separately.

The Trustees, with the support of the Scheme's investment adviser, review performances of the DC investments regularly at meetings of the Trustees. This also involves considering the appropriateness of the default arrangements relative to the needs of members and general market conditions.

The Trustees are responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement. Details of the objectives and the Trustees' policies regarding the default arrangement can be found in a document called the Statement of Investment Principles (SIP), which is contained at the end of the financial statements regarding governance.

Trustees' Report (continued)

The Trustees review the investment approach from time to time, and make changes as and when it is considered to be appropriate.

The default strategy and the performance of the default arrangement are reviewed at least every three years and were last reviewed on 23 September 2020. No material changes were made, the Trustees being satisfied that the default solution (including its lifestyle strategy) remained appropriate to members. No formal review of the default strategy has been undertaken since September 2020, it being the view of the Trustees that it remains appropriate for the Scheme. The Trustees expect to meet and review the strategy during 2023 or early-2024. If such a review is undertaken, the Trustees will provide an update on the scope and outcome of that review within next year's DC Governance Statement.

Investment Monitoring

In addition to the strategy review, the Trustees also review the performance of the default arrangement on a quarterly basis. This review includes an analysis of fund performance. Member activity is limited and provides no meaningful guidance to trustees as to the performance of the default arrangement. The Trustees are content that the default arrangement is performing broadly as expected and is consistent with the aims and objectives of the default as stated in the SIP.

While the Trustees are largely reliant on the Investment Managers to ensure that the funds which the Scheme is invested offer good value (in terms of both costs and consequent return) to the Scheme, the information set out above is indicative of good value being obtained from the underlying investments made by the Investment Manager.

Communication with members

The Administrators are engaged to communicate with members and the Trustees are content that the arrangements with the Administrators require proper, timely and appropriate communication with members regarding the Scheme and their options in relation to it.

Value for Members

The Trustees are required to consider the extent to which the charges and transaction costs borne by the members in relation to the Scheme represent good value for members.

- There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustees have already commented on where members receive value for money. The Trustees concluded that the charges were not competitive versus comparator master trust schemes and performances were below that of the comparator schemes. All administration and professional fees are met by the employer.

- The latest full review of the value for members was completed in 2023.

- The conclusions of this review have already been summarised in this Statement.

Trustees' Report (continued)

Sufficient Knowledge and Understanding

Trustees of occupational pension schemes are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice that is available to them, enables them to properly exercise their functions and duties in relation to their scheme.

During the period covered by this statement the Trustees have met this requirement in the following way:

- The Trustees have been conversant with the Trust Deed and Rules of the Scheme, the SIP and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally; and

- The Trustees have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investing the assets of occupational pension schemes.

- The Trustees have varying levels of experience of the Scheme and schemes generally. In general, the Trustees rely on the administrators and professional advisers to bring to the attention of the Trustees changes in law and regulatory requirements in relation to the operation of the Scheme.

- The administrators proactively raise any changes in governance requirements and other relevant matters as they become aware of them. A representative of the administrators regularly attends the meetings of the Trustees, and the administrators would typically deliver training on such matters at Trustee meetings if they were material. The administrators regularly circulate relevant briefing papers to the Trustees.

- All the Trustees are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed and Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

Other considerations

Other important considerations for the Trustees are outlined below:

- In carrying out the assessment, the Trustees also consider the other benefits members receive from the Scheme. The Scheme is closed to further members' contributions and is preserved with a view to securing the GMP underpin for the benefit of members. The Trustees consider that the GMP underpin provided under the Scheme is a key element in the value to members provided by the Scheme. The employer makes continuing contributions towards the costs of the GMP underpin and in that context continues to meet the costs (other than those inherent in the funds in which the Scheme is invested) in relation to the Scheme.

Ensuring good governance helps the Trustees determine whether the Scheme is good value for money and whether members and beneficiaries are being treated fairly and seeks to safeguard the interests of all members and beneficiaries.

Based on their assessment, the Trustees believe that they have largely adopted the standard of the practice as set out in the DC code of practice and regulatory guidance.

Trustees' Report (continued)

This Governance Statement along with its Appendices will be made publicly available on the Scheme website at the following address: Information - www.mfllprbs.info and members will be notified of this in their annual benefits statements.

The Statement regarding DC governance was approved by the Trustees on 30 November 2023 and signed on their behalf by:

Adrian E R Bell
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Trustee

Appendix A Net Investment Returns

The investment returns net of all fees borne by members of the Scheme are provided in the table below for the current arrangements.

Net Investment Returns of Member Self-Select Funds in the Current Arrangements as at 30 April 2023

Fund	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)
Current Funds			
Phoenix CIS Diversified Growth Fund*	-8.9	2.0	0.2
Phoenix CIS Active Balanced Bond Fund	-29.2	-19.1	-7.2
Phoenix CIS Active Cash Fund	2.1	0.5	0.4

Source: Phoenix Life. *The underlying fund has a target allocation of 50% in the Baillie Gifford Diversified Growth Fund and 50% in the Schroder Life Intermediated Diversified Growth Fund.

Net Investment Returns of the Scheme's Balanced Retirement Investment Strategy as at 30 April 2023

Fund	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)
Age 65	-22.5	-13.5	-4.7
Age 55	-8.9	2.0	0.2
Age 45	-8.9	2.0	0.2

Source: Phoenix Life.

Trustees' Report (continued)

Appendix B Member Illustrations

The following illustration projects the value of a £10,000 accumulated pension fund to provide estimated values in 10 years time, 20 years time and in 30 years time. The projections assume that no other contributions are paid into the fund over the projection periods.

The illustration allows for Annual Management Charges (AMCs) to be paid out to the investment fund manager for services involved with the management of the fund and the costs associated with running the fund. The level of these charges affects the final fund value.

Three different annual management charges have been used to provide a broad spectrum of projections demonstrating how a higher annual management charge may result in a lower final fund value at the end of the period.

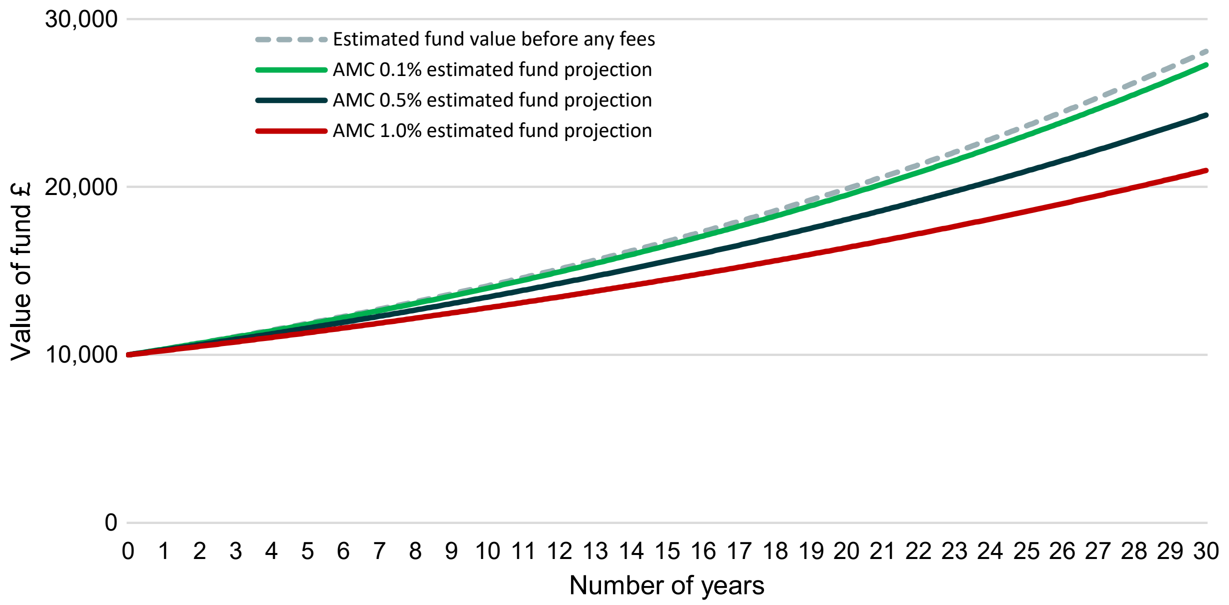
A gross investment return of 6% per annum has been assumed over all illustration periods and the annual management charges applicable for each example are deducted from this.

The illustrations have also been reduced to reflect the effects of anticipated inflation over the period of projection, assumed to be 2.5% per annum. This means that the resulting projections can be considered as the value of money in today's terms.

The value of the fund based on each different Annual Management Charge is shown at three separate periods 10 years, 20 years and 30 years.

It should be noted that these are only illustrations and actual fund values will depend on actual investment returns achieved on investments, the time under investment and the amount invested.

Illustration of the effect of Annual Management Charges (AMC) on projected fund values



	No Charges	0.1% Charge per annum	0.5% Charge per annum	1.0% Charge per annum
Value at 10 years	£14,106	£13,970	£13,439	£12,801
Value at 20 years	£19,898	£19,517	£18,061	£16,386
Value at 30 years	£28,068	£27,266	£24,273	£20,976