



# **TMD Friction UK Pension Scheme**

## **Chair's Statement**

1 April 2020 to 31 March 2021

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**Disclaimers, confidentiality and non-disclosure**

This Statement has been commissioned by the Trustee of the TMD Friction UK Pension Scheme. The intended users of this note are the Trustee Directors and Scheme members. Its scope and purpose is to provide the Trustee with a report that can be shared with members to demonstrate the governance of the Scheme is in line with legislation which requires the publication of an annual Chairman's Statement. In preparing this Statement and illustrations, the Trustee has had regard to:

- The Occupational Pension Schemes (Scheme Administration) Regulations 1996;
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018;
- The Pensions Regulator's Code of Practice number 13 on 'Governance and administration of occupational trust-based schemes providing money purchase benefits'; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix.

We have used the information that Aon have supplied to us in their report titled "Review of the AVC & EXT V Arrangements", as well as other public information as specified in the Statement, which we have accepted without independent checking. We do not accept responsibility for any errors that may arise that are due to such information being incorrect. We are not lawyers. If you believe that you require legal advice then you must consult an appropriately qualified professional.

It is noted that this advice will be shared with Wrigleys Solicitors LLP. This advice may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustee may rely on or make decisions based on this advice (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This advice has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This advice is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

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# 01 Introduction

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**£0.82m**

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Total defined contribution funds in the Scheme.

**This is the Chair's Statement for the TMD Friction UK Pension Scheme covering the period 1 April 2020 to 31 March 2021.**

As the Chair of the Trustee, I provide you with a yearly Statement which explains what steps have been taken by the Trustee Board, with help from our professional advisers, to meet the governance standards. The law sets out what information has to be included in my Statement and this is designed to help members achieve a good outcome from their pension savings.

The Scheme is a hybrid pension arrangement, and was up until 2017, comprised of separate Defined Benefit and Money Purchase sections. In March 2017, members of the Money Purchase Section transferred to an arrangement of their choice, retired or transferred either to a Group Personal Pension Plan or a Section 32 arrangement, both operated by Legal & General Investment Managers ("LGIM").

The Money Purchase funds now held in the Scheme relate to benefits provided on a Money Purchase basis and are in respect of Additional Voluntary Contributions ("AVCs") and benefits from previous transfers in (commonly called the External Transfer Values - in this Statement referred to as "EXTV"). The total value of these funds as at 31 March 2021 is £815,722, and a breakdown is shown in Appendix A. It should be noted that some members invest in more than one fund, and the breakdown in Appendix A only includes members once, hence the difference in the total shown.

The Scheme closed to future Defined Benefit accrual and future AVC payments on 5 February 2016.

## Governance and Queries

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The Trustee Board is committed to having high governance standards and meets regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustee does to help ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact the Trustee C/O XPS Pensions Group, 1 City Square, Leeds, LS1 2ES

I, Lawrence Bleasdale, am signing this Statement as the Chair of the Scheme.

# 02 Default Investment Strategy

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## Statement of Investment Principles (SIP)

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A copy of the SIP, which sets out the objectives for the Scheme's investment strategy, can be found in Appendix A

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## 29 July 2021

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The most recent review of the fund range and default arrangement's strategy and performance was concluded

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### 02.01 The default investment option

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In relation to the EXTV and AVC funds the Trustee has added commentary in the Scheme's "default arrangement" section. It should be noted that on the basis that no future contributions can be paid to the EXTV and AVC funds and the Scheme has never been used to comply with auto enrolment legislation, that no such "default arrangement" exists as defined in the Regulations.

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### 02.02 Reviewing the default investment arrangement

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The Trustee is expected to review the investment strategy and objectives of the default investment option at regular intervals.

On the advice of Aon, the Scheme's investment advisers, the Trustee has reviewed their paper entitled "Review of the arrangements holding EXTV and AVC funds" dated 29 July 2021, alongside the Scheme's investment objectives and the performance of the investments in the EXTV and AVC funds to ensure that they are still appropriate given the Trustee's investment duties.

Although no immediate concerns were raised about the suitability of the AVC or EXTV providers or the investments, the Trustee will consider the recommendations as suggested by the investment advisers Aon. In particular this will include reviewing the global equities fund and the lifestyle strategy as recommended by Aon.

By commissioning a Value for Members Assessment and a review on the AVC and EXTV funds, the Trustee has looked at the level of risk and number of investment funds offered to members, changing long-term investment market conditions and the investment products and techniques available in the market place.

During the period covered by the Statement, the Trustee has, via the Value for Members Assessment, also reviewed the performance of the underlying funds in the default investment option against the aims and objectives set out in the Statement of Investment Principles (SIP). The Trustee believes they continue to meet these aims. This review included analysis of the fund returns against their benchmarks and consideration of general market trends.

# 03 Charges and transaction costs

Members may self-select their investment strategy, investing in any of these funds in whatever proportions they choose

## 03.01 Investment Manager Charges

The Trustee has selected a range of funds which they believe to be appropriate for members of the Scheme. The funds are managed by Legal and General Investment Managers (LGIM).

I am required to explain the charges and transaction costs (i.e. the cost of buying and selling investments in the Money Purchase elements of the Scheme) which are paid by members rather than the Company. All LGIM administration costs are paid by the Scheme, and hence members with AVCs invested with LGIM only pay the investment charges. For EXTV members, we note that they pay no charges on their funds.

All the funds on the LGIM platform offered are a combination of active and passively managed. Members in the LGIM AVC arrangement may self-select their investment strategy, investing in any of these funds in whatever proportions they choose, and also have the option of selecting the lifestyle strategy designed to reduce investment risk as they approach their normal retirement age.

The charges and transaction costs across all funds available to members during the Scheme year were:

Fund Name	Active or Passively Managed	Transaction Costs	Total Expense Ratio
<b>LGIM Self Select Funds</b>			
Global Equity Fixed Weights (60:40) Index	Passive	0.0010%	0.16%
Multi-Asset (formerly Consensus Index) AVC fund	Passive	0.0259%	0.25%
Multi-Asset (formerly Consensus Index) EXTV fund	Passive	0.0259%	0.00%
Over 15 Year Gilt Index	Passive	0.0007%	0.10%
Over 5 Year Gilt Index – Linked Gilts Index	Passive	0.0250%	0.10%
Cash	Active	-0.0019%	0.125%

(Source: Review of the arrangements holding EXTV and AVC funds report by Aon)

Members may select any of the funds above and switch between these options should they wish.

The Trustee annually compares the performance and charges of the LGIM funds to make sure they remain competitive and the fees are noted to be broadly in line with similar providers, and hence the Trustee has no concerns about the LGIM fees.

Transaction costs consist largely of the cost of buying and selling assets, which vary from fund to fund and from day to day. The highest cost was noted for the LGIM Multi-asset (formerly Consensus) Index AVC, however when reviewed in line with market alternatives, The Trustee considered to be a reasonable charge.

For all the LGIM funds used for AVCs these costs are reflected in the Annual Management Charge ("AMC") applicable to each fund. For the EXTVs, the charges are paid for by the Company.

# 04 Core financial transactions

## 04.01 Assessing Core Transactions

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During the year, the Trustee ensured the requirements of Regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 were met and that the Scheme's core financial transactions were processed promptly and accurately by:

- > having an agreement in place with XPS Administration (as Scheme administrator), committing them to defined service level agreements ("SLAs"). Amongst other matters, this covers the accuracy and timeliness of all core financial transactions;
- > having XPS Administration report on their performance against the SLAs above as a means of monitoring that the SLA requirements are being met and to cover what they do to ensure no issues arise; and
- > having the Scheme auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

Where any error or issue is identified, the Trustee board takes appropriate steps to resolve and take action as required. We can confirm there were no material issues in the Statement period on which to report.

The core financial transactions include:

- > **The investment of Money Purchase contributions** - no further contributions are now paid into the AVC or EXTV arrangement;
- > **the transfer of assets relating to members into and out of the AVC or EXTV arrangements** - comprehensive records of individual members' fund values are maintained and reconciled by the Scheme's administrator. Investments withdrawn or transferred to another pension arrangement are completed within 12 working days following receipt of all relevant paperwork, subject to any investigations required where there is evidence of a potential pensions liberation;
- > **Monitoring of bank accounts** – a robust review process for investment and banking transactions with agreed authorisation and checking levels is in place;
- > **Payments to members** – all payments out of the Scheme in respect of members' benefits are made in line with standard checks and agreed processes and authorisation levels to ensure any payment made is calculated correctly and in line with the Scheme's rules, legislation and also complies with HMRC rules and guidance. In addition, every effort is made to check for incidents of pension liberation fraud.

Noting the requirement for accurate member data to process payments correctly, the Trustee is taking steps to continually review and correct any problems with the member data which is held by the Scheme administrator.

## 04.02 Administration

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The Trustee closely monitors the administration function to ensure members get the best service possible in order to provide good value for members.

# 05 Value for Members

## 05.01 Assessment of Value

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When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members.

The Trustee has completed a value for money for members' assessment which is an in-depth review of the current arrangement and consideration to whether this provides appropriate value for members. This is a separate document available upon request, and the outcomes of the assessment are summarised in this section.

Overall the Trustee has concluded that the charges and transaction costs shown in this Statement represent good value for money having considered the following elements:

- > **processes** - that support the efficient administration and governance of the Scheme. These include those explained in the 'Core financial transactions' and the 'Knowledge and understanding of the Trustee' sections of this Statement;
- > **returns achieved by the investment funds** - compared with the charges and transaction costs;
- > **type and range of investment options** - The range of funds provided reflected the number of members with AVC and/or EXTV benefits remaining in the Scheme as well as the size of pots held. In addition, within the current structure most members will take the DC fund as part of their tax-free cash or purchase an annuity and therefore the lifestyle targets an annuity purchase. Alternatively, AVC members may select their own investment choice from the funds available. The Trustee monitors both the performance and appropriateness of the funds. The Scheme's investment advisers Aon have made a couple of recommendation which the Trustee is due to consider. The last review was completed in 2021. The Trustee ensures a proportionate approach is taken and is satisfied that the investments offered, and communications are appropriate, and offer members the opportunity to maximise the value of contributions that have been paid into the Scheme;
- > **quality of communications** - reviewed on an ad-hoc basis to ensure they remain appropriate; and
- > **the Company pays directly for most services** with the exception of a small investment charge shown in this Statement.

## 05.02 Service Providers

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In addition to assessing the costs charged by service providers, the Trustee keeps its providers' service levels under review by checking performance against agreed 'Service Level Agreements'. For example, meetings are held with XPS Administration to review their performance as third party administrator on a quarterly basis in order to ensure that administrative performance meets the standard set by the Trustee.

The Trustees also completes a regular review of its advisers in order to ensure services provided remain the most appropriate and offer value to members. The Company and Trustee may, from time to time, also put services out to tender.

# Value for Members

## continued

### 05.03 Communications

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Good member communications are crucial to achieving good value. The Trustee has taken steps to increase member support to assist members in their decision making process via the upcoming launch of the member portal and with the offer of IFA support (currently in development).

### 05.04 Flexibility - accessing benefits

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Upon request, the Trustee considers allowing members who meet the conditions under legislation the option to take their funds as an Uncrystallised Funds Pension Lump Sum.

The benefits of membership include (amongst other things): the options available to members of selecting their investments to reflect their desired retirement choice, or to select the option of the lifestyle strategy to assist with reducing their investment risk as they approach retirement.

### 05.05 Covid-19

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Throughout 2020 and 2021, the development of the global pandemic caused by the Covid-19 virus has had significant impact on members' benefits. The impact on the investment markets has seen the biggest fall since the crash in 2008.

The Trustee carried out an extensive assessment to ensure that they could still effectively carry out their duties to govern the Scheme. This included seeking assurances that all providers were able to maintain their services while in the unprecedented situation of lockdown.

The Trustee reviewed the checklist recommended by the Regulator to ensure that all services remained effective. This included checking the Scheme's administrator's procedures around the increased risk around pension liberation.

### 05.06 Conclusion

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Assessment of value for members is an ongoing process and the Trustee undertakes a review each year to ensure the Scheme continues to offer good value. Any changes in legislation, market conditions or member views are all being considered for the benefits of members.

# 06 Trustee Knowledge and understanding

## 06.01 Knowledge and understanding of the Trustee

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The Trustee Directors are satisfied that they have complied with the knowledge and understanding requirements in section 248 of the Pensions Act 2004.

The Trustee Directors collectively bring a broad range of skills and experience in finance, communications, payroll administration, and organisational development to their roles and are fully conversant with the Scheme's documentation including the Trust Deed and Rules and Statement of Investment Principles.

The Trustee Board includes a Professional Independent Trustee providing the Board with professional knowledge of the law relating to pensions and trusts, principles of investment and the requirements for funding a pension scheme. In addition, the overall knowledge and understanding is boosted and evidenced by the Board's interaction with its advisers as shown in the Trustee Meeting minutes, and the governance framework established by the Trustee to review the performance of the Scheme.

The Trustee Board has access to all key Scheme documentation at all times via a secure online portal.

The Trustee has exercised its discretions and powers in line with the Trust Deed and Rules, current legislation and regulation and where required legal advice has been taken, demonstrating its working knowledge of the Scheme's Trust Deed and Rules.

## 06.02 Trustee Training

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In-house training is offered, use of the Pensions Regulator ("TPR") toolkit modules is encouraged, and Directors attend external seminars and updates. Any new Trustee Director would be expected to carry out this training and be fully conversant with the Scheme's documentation within 6 months. A log of Trustee Director participation in training is maintained by XPS, and training needs are regularly identified based on forthcoming projects and gaps in Trustee knowledge. The Trustee's legal, actuarial and investment advisers provide in-meeting training on new legislation, pension and market developments and literature published by TPR relating to its Codes of Practice, in particular Code of Practice no 13.

During the period covered by this Statement the Trustee Board had a number of training sessions including:

- > GDPR training session
- > Conflicts of Interest training
- > Training on investment strategy and journey planning

The Trustee also makes use of a team of expert advisers. investment advisers, representatives from the third-party administrator, and other experts including legal advisers regularly attend meetings of the Trustee Board.

## 06.03 Conclusion

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As a result of the training activities which have been completed by the Trustee Directors, individually and collectively as a Board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enable us to exercise properly our functions as the Trustee of the Scheme.

# 07 Conclusion

“Overall, the conclusion is that the Scheme is continuing to deliver value for money to the members”

The annual production of this Statement provides members with a narrative of how the Trustee Board looks after members’ interests, especially in the areas of the 4 key elements within this Statement listed below.

- > Charges and transaction costs
- > Core financial transactions
- > Providing value for members
- > Trustee Knowledge and understanding

The Board will continue to monitor these key areas and report to members both in this annual Statement and other communications as appropriate. In conclusion, with the continual monitoring and the reviews detailed here the Chair and Trustee are pleased to be able to submit this report in compliance with the Chair’s Statement requirements, in the belief that in the reporting period the Scheme was operated and governed appropriately.

Signature

Date

Name

Lawrence Bleasdale

Chair of TMD Friction UK Trustee Limited

# Appendix A

## Fund Value Breakdown & Projections

Membership data, investment performance, fund value breakdown and projections have been taken from the Aon report entitled "Review of the arrangements holding EXTV and AVC funds" dated 29 July 2021. The table below summarises the membership and assets under management in the EXTV / AVC arrangements:

Provider	Fund name	Fund value	Number of members
<b>LGIM EXTV Funds</b>			
<b>Value as at 31 March 2021</b>	Multi-Asset (formerly Consensus) Fund	£454,945	<b>18</b>
<b>LGIM AVCs</b>			
<b>Values as at 31 March 2021</b>	Global Equity FW 60:40 Index <sup>3</sup>	£116,133	<b>11</b>
	Multi-Asset (formerly Consensus) Fund	£30,872	<b>2</b>
	Over 5 Year Index-Linked Gilt Index <sup>3</sup>	£32,828	<b>7</b>
	Over 15 Year Gilt Index	£23,820	<b>2</b>
	Cash	£39,379	<b>4</b>
	<b>Total</b>	<b>£697,977<sup>2</sup></b>	<b>35<sup>1</sup></b>

<sup>1</sup> Some members invest in more than one fund. We have only included members once in the total shown.

<sup>2</sup> Fund value shown is bid value for the EXTV funds and mid-value for the AVC funds

<sup>3</sup> These funds are components of the lifestyle strategy, as well as self-select funds. Nine members invest in the lifestyle strategy, their funds are reported under the underlying funds here.

# Fund Value Breakdown & Projections

## continued

Taken from the Aon paper "Review of the arrangements holding EXTV and AVC funds" dated 29 July 2021.

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced additional 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.

To help members understand the impact that costs and charges can have on their retirement savings, the Trustee has produced illustrations of their cumulative effect on the value of four representative members' savings over the period to their retirement.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on several assumptions about the future which are set out below under 'notes and assumptions'.

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.

The representative members the Trustee has chosen are:

Example member	Number of years to retirement	Current fund value
<b>EXTV arrangement</b>		
1 – youngest member (age 50)	15	£2,500
2 - average member (age 55)	10	£19,500
<b>AVC arrangement</b>		
3 – youngest member (age 52)	13	£7,600
4 – average member (age 60)	5	£7,600

### EXTV arrangement

All EXTV funds are invested in the Multi-Asset (formerly Consensus) Fund therefore we have produced illustrations to demonstrate the effect of the costs and charges on this Fund.

Example member 1 – EXTV member who is 15 years from retirement with a current fund value of £2,500 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
10	2,688	2,686	2
5	2,891	2,886	5
0	3,109	3,101	8

## Fund Value Breakdown & Projections continued

Example member 2 – EXTV member who is 10 years from retirement with a current fund value of £19,500 invested in the Multi-Asset (formerly Consensus) Fund:

Number of years to retirement	Before charges (£)	After charges (£)	Impact of charges (£)
5	20,969	20,951	18
0	22,549	22,510	39

AVC arrangement

In order to show the effect of costs and charges on a range of funds with different growth rates, costs and charges, we have illustrated the three most popular investment options, the Lifestyle Strategy, the Over 15 Year Gilt Index Fund and the Cash Fund.

Example member 3 – AVC member who is 13 years from retirement with a current fund value of £7,600 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Over 15 Year Gilt Index Fund			Cash Fund		
	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)	Before charges (£)	After charges (£)	Impact of charges (£)
10	8,170	8,132	38	7,358	7,334	24	7,110	7,084	26
5	8,904	8,796	108	6,972	6,910	62	6,364	6,300	64
0	8,874	8,702	172	6,605	6,511	94	5,695	5,603	92

Example member 4 – AVC member who is 5 years from retirement with a current fund value of £7,600 invested in a range of Legal & General Funds:

Number of years to retirement	Lifestyle Strategy			Over 15 Year Gilt Index Fund			Cash Fund		
	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges
0	7,575	7,519	56	7,201	7,161	40	6,802	6,759	43

### Notes and assumptions

Fund values shown are estimates and are not guaranteed.

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

Inflation is assumed to be 2.5% p.a.

## Fund Value Breakdown & Projections continued

Illustrations assume no further contributions are paid, as the Scheme is closed to future accrual.

Example member ages and starting fund values are representative of the Scheme's membership as at 1 April 2021.

For the AVC Lifestyle Strategy, the illustrations take into account the changing proportion invested in the different underlying funds throughout the term to retirement.

The illustrations use the average transaction costs over the last four years, in line with statutory guidance, to reduce the level of transaction cost volatility. A 'floor' of 0% p.a. has been used for the transaction costs if these were negative so as not potentially to understate the effect of costs on fund values over time.

The growth rates, costs and charges assumed for the illustrations are as follows:

Investment option	Growth rate	Costs and charges
EXTV Multi Asset (formerly Consensus) Fund	1.5% p.a. above inflation	0.0182% p.a.
Lifestyle Strategy	Between 1.4% p.a. below inflation and 2.5% p.a. above inflation*	Between 0.1063% p.a. and 0.1603% p.a.*
Over 15 Year Gilt Index Fund	1.1% p.a. below inflation	0.1119% p.a.
Cash Fund	2.25% p.a. below inflation	0.1259% p.a.

\*depending upon term to retirement.



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