



Value for Members Assessment

# TMD Friction UK Pension Scheme

October 2022



# Introduction

**This *Value for Members (VfM)* report is provided by XPS, for the TMD Friction UK Pension Scheme, covering the period 1 April 2021 to 31 March 2022.**

In the Executive Summary you will find XPS's view as to whether the Scheme provides good value for its members. The assessment is based on the matters which must be covered, as set out in the relevant regulations and guidance\*. XPS understands that the Scheme had assets of less than £100m at the date of its last set of audited accounts and therefore must comply with the regulations as set out in that guidance, which are in summary:

- ▶ For scheme years ending on or after 1 January 2022, 'specified schemes' (those with less than £100m in assets and having been in operation for at least three years), must undertake a VfM assessment each year, based on a set range of matters. This must determine whether the DC benefits provided to members are good value, or not.
- ▶ The results of the assessment must be included in the annual chair's statement, the scheme return to The Pensions Regulator; and be published on a publicly available website.
- ▶ If a scheme is not delivering good value for members, trustees must confirm in the scheme return whether they plan to wind up the scheme and if not, why not and how they plan to improve it. Any improvements need to be made in a 'reasonable period' which we consider to be before the Scheme's next assessment period
- ▶ Should a Scheme be considered as not providing good value, XPS will consider the next steps with the Trustees; be that how to improve it, or steps to wind it up.

Having reviewed this assessment, the Trustee should consider its findings, decide whether the Scheme provides good VfM or not, and this conclusion is to be documented in the Chair's Statement. The decision on whether the Scheme provides good value is the Trustee's. We recommend this report is used as part of the Trustee's considerations and decision.

\*[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994897/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns.pdf)

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Executive Summary	Net returns / costs & charges	Core financial transactions	Record keeping	Default investment strategy	Quality of investment governance	Trustee knowledge and understanding	Quality of communications	Management of conflicts
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The Value for Members assessment shows that the Scheme provides good value for members (further details on the assessment methodology are included in Appendix C). We include here a summary of our findings.

Net returns / costs & charges	Core financial transactions	Record keeping	Default investment strategy	Quality of investment governance	Trustee knowledge & understanding	Quality of communications	Management of conflicts
<p>Score: <b>2</b></p> <ul style="list-style-type: none"> <li>Net returns are good versus the comparators</li> <li>Costs and charges are good value versus the comparators</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>No gaps requiring recommendation</li> </ul>	<p>Score: <b>3</b></p> <ul style="list-style-type: none"> <li>Core financial transactions have been processed in line with requirements</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Consider adding review of Administrator's Business Continuity Plan to the annual diary of routine events</li> </ul>	<p>Score: <b>3</b></p> <ul style="list-style-type: none"> <li>The Trustee keeps suitable records, and has processes in place to maintain these</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Consider retesting scheme-specific data after GMP rectification exercise</li> </ul>	<p>Score: <b>3</b></p> <ul style="list-style-type: none"> <li>The investment strategy was reviewed within the statutory period</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Consider implementing improvements suggested in Aon's review</li> </ul>	<p>Score: <b>3</b></p> <ul style="list-style-type: none"> <li>Investment governance is robust, regular, and purposeful</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Develop/document a member communications strategy</li> <li>Consider conducting a Trustee effectiveness exercise in 2022</li> <li>Consider quarterly performance review of DC investments</li> </ul>	<p>Score: <b>2</b></p> <ul style="list-style-type: none"> <li>The Trustee receives ad hoc training from advisers and has good working knowledge of pensions</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Consider adding Trustee board diversity to the trustee effectiveness exercise</li> <li>Consider leadership as part of the Trustee effectiveness exercise</li> </ul>	<p>Score: <b>2</b></p> <ul style="list-style-type: none"> <li>The Trustee does not have a framework for a communications strategy and plan</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>Carry out member surveys/ use XPS Member Analytics</li> <li>Develop communications plan covering what you would like to convey to members, best format and a review process to measure the effectiveness</li> </ul>	<p>Score: <b>3</b></p> <ul style="list-style-type: none"> <li>The Trustee has a clear policy and structure of review for managing this</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>No gaps requiring recommendation</li> </ul>

Key: 1 = Poor Value, 2 = Good Value, 3 = Excellent Value

## Net returns

In relation to the benefits from previous transfers in (commonly called the External Transfer Values - in this report referred to as (“EXTV”) and Additional Voluntary Contributions (“AVC”) funds, 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 not been used to comply with auto enrolment legislation, and as such no “default arrangement” exists as defined in the Regulations. However, all EXTV funds are invested in the LGIM Multi-Asset (formerly Consensus) fund which has been deemed as default arrangement for the purpose of this exercise and the table below shows how this fund has performed over several time periods.

EXTV Default	5 years (2017-2022) %	1 year (2022) %
LGIM Multi-Asset (formerly Consensus) fund	5.4	4.3

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)

NB: EXTV benefits are held in a segregated section. These benefits are subject to a GMP underpin so the investment strategy is based on balancing risk to maximising return whilst considering the Trustee’s exposure to the underpin. In addition, the Multi-Asset fund that is utilised for EXTV members is a fund version that does not include charges. This can be seen in the net returns and charges data in this report. When assessing for Value, **this** has been taken into account although not explicitly mentioned throughout the report.

## Net returns

This table shows how the **Self Select Funds for members with AVC funds** have performed. As self-select funds are constant profiles and unlike the lifestyle strategies do not change in line with age or time to retirement they can be shown as a single value for each fund.

AVC Self-Select Funds - LGIM	5 years (2017-2022) %	1 year (2022) %
Global Equity Fixed Weights (60:40) Index*	6.6	11.5
Multi-Asset (formerly Consensus Index)	5.2	4.0
Over 15 Year Gilt Index	0.8	-7.3
Over 5 Year Gilt Index – Linked Gilts Index*	3.1	4.8
Cash*	0.2	0.0

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)

\*Members with AVC can also opt to use these funds as part of the lifestyle strategy

## Net returns vs comparators

The VFM requirements necessitate a comparison of net returns versus three comparators, and this is included below.

The comparators are as follows:

Comparator A – The NPT Master Trust, based on the average costs and charges for schemes currently in the master trust

Comparator B – The Nest Master Trust – a government backed workplace pension scheme, with costs and charges based on the standard rate applicable for all schemes

Comparator C – A “typical” large occupation trust, with costs and charges as set out further in this report

	TMD Assets (£000)	5 year returns (annualised) %				1 year returns %			
		TMD	Comparator A	Comparator B	Comparator C	TMD	Comparator A	Comparator B	Comparator C
EXTV Default									
LGIM Multi-Asset (formerly Consensus) fund <sup>1</sup>	362								
Age 25		5.40	10.83	7.20	6.09	4.30	15.23	8.40	4.16
Age 45		5.40	9.19	7.46	6.09	4.30	12.09	9.26	4.16
Age 55		5.40	7.85	3.23	6.09	4.30	9.37	4.53	4.16
<b>AVC Self-Select Funds - LGIM</b>									
Global Equity Fixed Weights (60:40) Index*	104	6.60	11.25	8.20	7.97	11.50	16.19	10.05	5.62
Multi-Asset (formerly Consensus Index)	40	5.20	3.20	n/a	n/a	4.00	3.53	n/a	n/a
Over 15 Year Gilt Index	22	0.80	0.50	n/a	0.97	-7.30	-5.70	n/a	-7.37
Over 5 Year Gilt Index – Linked Gilts Index*	45	3.10	0.50	n/a	0.97	4.80	-5.70	n/a	-7.37
Cash*	40	0.20	0.13	n/a	0.08	0.00	-0.19	-0.00	0.00
<b>Total assets</b>	<b>612</b>								

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)

<sup>1</sup>The EXTV default uses a single fund but the regulations require comparison of net returns at age 25,45 and 55. As such, the net returns of EXTV fund which are the same regardless of age, have been compared against the returns in the 3 comparators which use lifestyle strategies and therefore differ with age along the lifestyle glidepath towards retirement.

\*Members with AVC can also opt to use these funds as part of the lifestyle strategy

## Comparison of costs and charges

As with net returns, we have considered the costs and charges of the member investment options and have benchmarked those costs and charges against the three comparator arrangements.

For bundled arrangements (like NPT and NEST), costs and charges reflect the cost of investment management and administration. Members of the Scheme however, do not pay for the cost of administration (so Scheme costs reflect the cost of investment management only). **EXTV members pay no charges on their funds.**

A breakdown of the Scheme charges by Total Expense Ratio and Transaction Costs is shown in the Appendix.

EXTV Default	TMD %	Comparator A %	Comparator B %	Comparator C %
LGIM Multi-Asset (formerly Consensus) fund	0.00	0.69	0.30	0.72
<b>AVC Self-Select Funds - LGIM</b>				
Global Equity Fixed Weights (60:40) Index	0.18	0.68	0.30	0.75
Multi-Asset (formerly Consensus Index)	0.26	0.80	n/a	n/a
Over 15 Year Gilt Index	0.09	0.66	n/a	0.11
Over 5 Year Gilt Index – Linked Gilts Index	0.12	0.66	n/a	0.11
Cash	0.13	0.54	0.30	0.00

The employer currently pays for administration fees. The costs and charges for the fund range compare reasonably well against comparator funds. Therefore we believe the costs and charges display good value for members.

SCORE: 2 – Good value

## Section 1: Core financial transactions

The Scheme must have an appropriate process for delivering accurate and timely core financial transactions, whilst regularly monitoring the performance against these.

	Test	Score	Observations	Recommended actions
1)	Trustees should have effective processes in place to control risks of delays and inaccuracies in core financial transactions and these should be reviewed regularly.  Does the Scheme have appropriate controls in place?	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Scheme includes administration as a dedicated item on the agenda at every regular Board meeting</li> <li>The Scheme has not reviewed its administrator's business continuity plan for adequacy within the period reported but reviews all advisers annually and has its own business continuity plan and disaster recovery policy</li> <li>The Scheme has documented service standards in place for the accuracy and time taken to process core financial transactions, and tracks performance against those standards at each Board meeting</li> </ul>	Consider adding review of Administrator's BCP to the annual diary of routine events
2)	Core financial transactions must be processed promptly (i.e. within maximum timescale allowed and within SLAs) and accurately, being: <ul style="list-style-type: none"> <li>Payment in and investment of member and employer contributions</li> <li>Transfers between schemes / investment switches within the Scheme</li> <li>Payments to beneficiaries</li> </ul>	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>Performance on transaction time and accuracy standards is reported in the quarterly administration reports</li> <li>In the period covered by this review, the latest performance against service level agreements was 99%</li> </ul>	No further action is required



# Section 1: Core financial transactions (cont.)

The Scheme must have an appropriate process for delivering accurate and timely core financial transactions, whilst regularly monitoring the performance against these.

	Test	Score	Observations	Recommended actions
3)	Trustees could also examine the level of member/beneficiary complaints in determining whether the scheme delivers value for members in terms of promptness and accuracy.	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The level of member complaints are reported to the Trustee in the administration report provided by their administrator, XPS</li> <li>In the period covered by this review, there were no complaints noted</li> </ul>	No further action is required

## Section 2: Record keeping

Here we consider the security, accuracy; and ongoing review of data. This is the foundation of any scheme, as it drives the provision of accurate benefits.

	Test	Score	Observations	Recommended actions
<b>Security of data</b>				
4)	Trustees should have controls in place to ensure that scheme members data is secure and is processed in accordance with the requirements of the Data Protection Act 2018.	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Scheme Administrator, XPS has provided an AAF report, and is compliant with ISO requirements. The Annual audit considers XPS's annual AAF report and considers any specific areas of potential concern</li> <li>There were no major exceptions in the report of concern</li> <li>The Scheme has a GDPR Risk Register and up to date Breach Policy and Privacy Statement</li> </ul>	No further action is required
5)	Data security should feature prominently in the scheme's risk register and risk planning. Trustees should assess the robustness of the controls they have in place, including data security and cyber risk	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Risk Register includes suitable comment</li> <li>The Trustee does not have a Data Security and Cyber Risk Policy but is in the process of developing this</li> </ul>	No further action is required
6)	Where record keeping is outsourced trustees should look at the effectiveness of data security controls put in place by their outsourced provider.	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee has reviewed the Scheme Administrator's Data Security controls as evidenced in the AAF report</li> <li>XPS undertake Regular Business Continuity Plan tests as part of a review of internal governance controls</li> </ul>	No further action is required
7)	There are business continuity mitigations – e.g. on key personnel absence. Trustees should assess the robustness of the controls they have in place.	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee has a Business Continuity Plan</li> <li>The Trustee's primary third party providers (e.g. administrator) have Business Continuity Plans</li> <li>The Scheme has not reviewed these in the period</li> </ul>	Consider adding review of Administrator's BCP to the annual diary of routine events

## Section 2: Record keeping (cont.)

Here we consider the security, accuracy; and ongoing review of data. This is the foundation of any scheme, as it drives the provision of accurate benefits.

	Test	Score	Observations	Recommended actions
<b>Accuracy and scope of records / data kept</b>				
8)	Trustees should check that they are holding all the data that they are required to hold by law including, for example, books and records relating to trustee meetings and certain transactions	<b>Excellent Value = 3</b>	The Trustee has a designated Secretary within XPS (albeit not officially appointed), that ensures the Trustee is aware of its requirements and documents are maintained appropriately	No further action is required
9)	The scheme should review the quality of common and scheme-specific data at least annually	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Scheme's common and scheme-specific data was last reviewed on 7 June 2022</li> <li>This showed a common data score of 98% and a scheme-specific data score of 88%</li> </ul>	Consider retesting scheme-specific data after GMP rectification exercise

## Section 3: Default investment strategy

Here we consider the appropriateness of the default investment strategy

	Test	Score	Observations	Recommended actions
10)	The investment strategy is clear, is appropriate for each stage of the member journey, and is consistently followed in accordance with strategy objectives	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee has an up to date Statement of Investment Principles and implementation statement, reflecting the current strategy</li> <li>The Trustee has considered the investment strategy within the last 3 years</li> <li>There have been no deviations away from the strategy objectives</li> </ul>	No further action is required
11)	The value added from portfolio construction, asset allocation and manager selection is assessed when the investment strategy is reviewed	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee considered these factors at its most recent review</li> <li>Following Aon's review of the arrangements holding EXTV and AVC funds dated 23 August 2022, Aon also recommend that the Trustee replaces the Global Equity Fixed Weights 60:40 Index with the All-World Equity Index Fund to reduce the concentration risk of these holdings arising from the current overweight allocation to UK equities and will provide exposure to developed and emerging market equities on a market capitalisation basis which the Trustee is now considering</li> <li>The Trustee is also considering replacing the funds used within the current lifestyle strategy structure for AVC funds as well as increasing the target allocation to 100% cash to reflect members most common choice at retirement.</li> </ul>	Consider implementing improvements suggested in Aon's review
12)	The risk and return in the investment strategy is properly considered and is suitable for the objectives of the scheme and the demographic profile of the members	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee considered these factors at its most recent review especially in relation to AVC members and EXTV members with GMP underpin.</li> </ul>	No further action is required
13)	The policies on ESG and climate change risks and opportunities in the statement of investment principles are not generic, but are tailored to the investment strategy of the scheme or fund.	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The SIP and implementation statement considers these matters</li> </ul>	No further action is required

## Section 4: Quality of investment governance

	Test	Score	Observations	Recommended actions
14)	Documented and robust investment governance procedures are in place and adhered to. In schemes where there is more than one trustee, there is a clear investment governance structure in place and each member within that structure is clear about their role and level of authority in decision making	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee considers the performance of the DC investments annually and discusses this at a meeting with the Investment Adviser, Aon</li> <li>The Trustee includes investment governance matters (e.g. SIP reviews / CMA reviews / Fiduciary Manager reviews) within their Annual Business Planner</li> </ul>	Consider reviewing performance of DC investments quarterly to be in line with TPR guidance
15)	Where tasks and decisions in relation to investment are delegated, those individuals have the required knowledge and expertise to perform their role competently, and performance is assessed periodically	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee has a Fiduciary Manager, that is authorised under the FCA, and has suitable experience of DC investment</li> </ul>	No further action is required
16)	Trustees can demonstrate that where fiduciary manager and investment managers are used, trustees remain actively engaged with such managers when investment decisions are made	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee Directors met with the Fiduciary Manager at the time of an investment strategy review</li> <li>The Trustee reviewed the performance of the Fiduciary Manager against the CMA objectives in January 2022</li> </ul>	No further action is required
17)	The Trustee board as a whole has the knowledge and competence to oversee investment effectively, they ensure investment objectives and strategies are understood and followed, and are able to challenge investment advice where necessary	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee has not undertaken an annual review of its effectiveness and knowledge – including investment matters</li> <li>The Trustee has documented investment training in the Training Log for the year</li> <li>All new Trustee Directors have training (within 6 months of joining) covering investment fundamentals for DC schemes</li> <li>Each Trustee Director has undertaken training in the year on investment related matters</li> </ul>	Consider conducting a Trustee effectiveness exercise in 2022

## Section 4: Quality of investment governance

	Test	Score	Observations	Recommended actions
18)	Reviews of how funds are performing against their objectives and reviews of portfolios are being carried out regularly	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee has reviewed its investment strategy within the last 3 years</li> <li>The Trustee has assessed the performance of its funds and strategies annually as evidenced by a strategy review and SIP being completed / meeting their investment managers and assessing performance / receiving and reviewing investment performance reports from Aon</li> </ul>	No further action is required
19)	Trustees recognise the role of trustees in asset allocation, setting investment strategy and the selection, monitoring and retention of managers	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The SIP refers to the Trustee's role in reviewing and setting the investment strategy</li> </ul>	No further action is required
20)	Trustees have risk management and continuity plans in place to deal with economic crises and market volatility, and clear governance structures in place in relation to long term financial sustainability of investments including consideration of climate change and ESG factors	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Risk Register has content which sets out a plan to deal with such matters. The SIP covers the Board's policy on long term financial sustainability of investments including consideration of climate change and ESG factors</li> <li>Have an up to date Implementation statement available to members online.</li> </ul>	No further action is required
21)	Trustees have good oversight of the communication strategies used to keep members informed about their investment options	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee does not have a clear communications strategy considering investment</li> <li>The Trustee did not review its communication strategy regarding investment</li> <li>The Trustee did not review whether members had received information in-line with the communications strategy for investment matters</li> <li>The Trustee provides deferred members over age 55 with free IFA support</li> </ul>	Develop/ document a member communications strategy

## Section 5: Trustee knowledge & understanding

Here, we consider the appropriateness of the trustee board structure and operations, and whether this is effectively implemented

	Test	Score	Observations	Recommended actions
22)	Whether sufficient time is spent running the scheme – TPR suggests that board meetings should usually be held at least quarterly	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee meetings are held quarterly, and those at which the DC benefits are considered are held annually</li> </ul>	Consider monitoring DC investment performance quarterly as recommended under item 14
23)	Diversity of the trustee board in terms of background, experience and skills – A variety of different skills, experiences and backgrounds should be evident on the Board as a whole and be relevant to meet the needs of the scheme. For example, the attributes of different board members might range from particular knowledge of investment matters to understanding the employer’s priorities to simply asking the right questions	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee has not undertaken an annual assessment of diversity, skills, and performance but this is scheduled for Q4 2022</li> <li>The Trustee has sufficient knowledge of the law relating to pensions and trusts, principles of investment and the requirements for funding a pension scheme. This is evidenced by the Board’s interaction with its advisers as shown in Trustee Board Meeting minutes and the governance framework established by the Trustee in reviewing the performance of the Scheme</li> <li>The Trustee has an independent professional Trustee on the Board</li> </ul>	Consider including diversity on the Trustee board to the trustee effectiveness exercise
24)	Quality of leadership and effectiveness of board decision making - The chair of trustees should also be able to demonstrate effective leadership skills. These include managing conflicts and adopting an inclusive approach which draws in the various skills and experiences across the members of the board. TPR recommends that the performance and effectiveness of the board should be evaluated annually. There are various ways of achieving this including peer review, questionnaire or the use of an external agency	<b>Good Value = 2</b>	<ul style="list-style-type: none"> <li>The Trustee has not assessed leadership and board decision making in the year</li> <li>The Chair has demonstrated effective leadership by ensuring the Trustee Board is undertaking training</li> </ul>	Consider assessing leadership as part of the Trustee effectiveness exercise

## Section 5: Trustee knowledge & understanding

	Test	Score	Observations	Recommended actions
25)	Trustee Continuous Learning and Development - Boards should be able to explain how they ensure that trustees have the necessary knowledge and understanding to carry out their role and act in the best interest of their members. TPR recommends all trustees keep a record of training undertaken and plans for future training to ensure that they possess, or are in the process of obtaining, appropriate knowledge and skills	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee has a Training Log, with evidence of DC Training, and a future plan for DC training</li> <li>All Trustee Directors get invited to XPS webinars</li> </ul>	No further action is required
26)	Quality of working relationships with employer/third parties - TPR suggests that the performance of advisers and providers will be reviewed at least quarterly by many schemes but that it may be appropriate for reviews to be less frequent for smaller, less complex schemes. They also recommend that trustees should be in regular contact with the employer in order to foster a constructive relationship	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>The Trustee receives reporting from key third parties, including administrator reports quarterly</li> <li>Evidence of good relationships with the employer include employer representatives on the Trustee Board / other trustee representatives regularly attending Trustee meetings</li> </ul>	No further action is required



## Section 6: Quality of communications

Effective communication is essential to good member outcomes. Below, we consider both the Trustees' communications strategy, and whether this is effectively implemented

	Test	Score	Observations	Recommended actions
27)	The Trustees have complied with their minimum statutory obligations to provide the required information inline with Disclosure Regulations to members	<b>Excellent Value =3</b>	<ul style="list-style-type: none"> <li>There have been no member complaints about information not provided, or incomplete or inaccurate information</li> <li>The Trustee has appointed a third party administrator with clear service agreements in order to assist in meeting these requirements. There have been no issues raised by these providers on the information provided to members</li> <li>The Chair of Trustee reviews the annual newsletter before it is issued to members</li> </ul>	No further action is required
28)	Information should be given to scheme members in an accurate, clear and concise way which is easy for them to understand. <ul style="list-style-type: none"> <li>Has there been feedback from scheme members?</li> <li>Have there been complaints about quality and quantity of information received?</li> </ul>	<b>Good Value =2</b>	<ul style="list-style-type: none"> <li>The Trustee has not had ad-hoc feedback from members regards their communications</li> <li>Trustee appointed Informed Pensions to provide deferred members over the age of 55 with a free Independent Financial advice session</li> </ul>	Consider gathering information on member views. This could be done by carrying out member surveys, or using XPS Member Analytics
29)	The Trustees should have a clear communications plan / strategy – which considers matters including the preferences of members, media used, the multiple member journeys (e.g. pre-retirement, at retirement etc), messaging and other related matters	<b>Poor Value =1</b>	<ul style="list-style-type: none"> <li>The Trustee has an Annual Planner, but does not have a specific communications plan which clearly sets out the Trustee's plan in this area</li> <li>The Trustee does not have a full communications plan, which clearly sets out its strategy</li> </ul>	Formulate a communications plan covering what you would like to convey to members, the best format of communications (letter, email, etc.) and a review process to measure the effectiveness

## Section 6: Quality of communications

Effective communication is essential to good member outcomes. Below, we consider both the Trustees' communications strategy, and whether this is effectively implemented

	Test	Score	Observations	Recommended actions
30)	<p>Scheme members' individual preferences should be acknowledged and technology and digital platforms used as appropriate.</p> <ul style="list-style-type: none"> <li>Have the Trustees researched the view of members?</li> </ul>	<b>Good value =2</b>	<ul style="list-style-type: none"> <li>The Trustee has not undertaken a member survey on communications in the period</li> <li>Deferred members have access to an online platform for online communications and calculations and the Trustee has considered this for pensioner members</li> <li>The Trustee has not undertaken a Member Analytics review to consider the preferences of members but considered providing pensioners with access to the online platform. In this, it was noted that some pensioners prefer hard copy communications</li> </ul>	<ul style="list-style-type: none"> <li>Develop a communication strategy/ plan</li> <li>Consider reviewing the number of members using online communications and advertising the portal in the next newsletter to increase engagement</li> </ul>
31)	<p>Has the Trustee undertaken a review of communications in the year considering the quality, compliance and timeliness of information in the following areas:</p> <ul style="list-style-type: none"> <li>Information and guidance in relation to the rights to transfer to another scheme</li> <li>The quality of guidance on spotting potential scams</li> <li>Information to help with decision making on investment options</li> <li>Information in the retirement wake up pack</li> <li>General signposting of members to various guidance bodies</li> <li>Information to help with decision making on pension saving, including, for example, an indication of the value at retirement and the impact of contribution levels on that value</li> </ul>	<b>Poor value =1</b>	<ul style="list-style-type: none"> <li>The Trustee has not undertaken a review of their communications in the period. It appoints a professional administrator (XPS Pensions) to provide these items to member and therefore expects these to be delivered as required</li> <li>The Trustee does not have a clear communications strategy</li> </ul>	<ul style="list-style-type: none"> <li>Formulate a communications plan covering what you would like to convey to members, the best format of communications (letter, email, etc.) and a review process to measure the effectiveness</li> <li>Add the communication strategy/ plan to the annual diary of routine events</li> </ul>

## Section 7: Management of conflicts

Conflicts of interest may arise either among trustees, between trustees and the employer or scheme provider, or with service providers and advisers. The Trustee[s] should there have an effective system of documenting, monitoring, and dealing with conflicts should they arise.

	Test	Score	Observations	Recommended actions
32)	The Trustees are required to have a robust policy and written procedures in place that identify, manage and monitor conflicts of interest effectively, which is regularly reviewed	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>• There is a clear policy and procedures document in place</li> <li>• There is a register of Trustee Directors', service providers' and advisers' interests, that is considered at every Board meeting</li> <li>• The policy and procedures are regularly reviewed (i.e. at least annually)</li> <li>• The Trustee Directors consider whether they are operating within the policy and procedures on a regular basis (ideally at each Trustee meeting)</li> </ul>	No further action is required
33)	Controls are in place to ensure that all trustees are aware of the requirement to declare and discuss any potential conflicts	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>• Trustee Directors consider conflicts at each Trustee meeting and all Trustee Directors are asked to raise any conflicts they are aware of</li> </ul>	No further action is required
34)	A conflicts of interest register in place to record and declare interests that is discussed at every Board meeting	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>• The Trustee has a conflicts of interest register that is considered at each Board meeting</li> </ul>	No further action is required
35)	Controls in place to ensure that all conflicts of interest are declared upon appointment of trustees and other service providers.	<b>Excellent Value = 3</b>	<ul style="list-style-type: none"> <li>• Any new Trustee Directors are asked to consider conflicts of interest on appointment</li> </ul>	No further action is required



 APPENDIX

# Appendix A - Costs and Charges

The charges and transaction costs to which members' funds are subject are summarised below as at 31 March 2022

	Transaction Costs and other expenses %	Total Expense Ratio %
<b>EXTV Default</b>		
LGIM Multi-Asset (formerly Consensus) fund	0.01	0.00
<b>AVC Self-Select Funds – LGIM</b>		
Global Equity Fixed Weights (60:40) Index*	0.04	0.175
Multi-Asset (formerly Consensus Index)	0.00	0.26
Over 15 Year Gilt Index	0.05	0.09
Over 5 Year Gilt Index – Linked Gilts Index*	0.02	0.12
Cash*	0.00	0.125

*(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)*

*\*Members with AVC can also opt to use these funds as part of the lifestyle strategy*

# Appendix B – Returns vs benchmark

The returns achieved on the Scheme's funds versus each funds' benchmark are summarised below as at 31 March 2022

	5 year returns (annualised)		1 year returns	
	Fund %	Benchmark %	Fund %	Benchmark %
<b>EXTV Default</b>				
LGIM Multi-Asset (formerly Consensus) fund	5.4	5.0	4.3	5.1
<b>AVC Self-Select Funds – LGIM</b>				
Global Equity Fixed Weights (60:40) Index*	6.6	6.7	11.5	11.6
Multi-Asset (formerly Consensus Index)	5.2	5.0	4.0	5.1
Over 15 Year Gilt Index	0.8	0.9	-7.3	-7.4
Over 5 Year Gilt Index – Linked Gilts Index*	3.1	3.2	4.8	4.9
Cash*	0.2	0.3	0.0	0.1

(Source: Aon Review of the arrangements holding EXTV and AVC funds report 23 August 2022)

\*Members with AVC can also opt to use these funds as part of the lifestyle strategy

# Appendix C – The value for members assessment structure

- > The Department for Works & Pensions (DWP) guidance document: *'Completing the annual Value for Members assessment and Reporting of Net Investment Returns: Guidance for trustees of relevant occupational defined contribution pension schemes, October 2021'* sets out the DWPs expectations on how trustees should conclude whether their scheme is good value to members.
- > In summary:
  1. Trustees should be able to explain how the scheme delivers on all three areas of this assessment being:
    - Costs and charges
    - Net investment returns
    - Governance and Administration
  2. It is expected that Trustees give most weight to the net investment returns, and their ability to properly manage the scheme over the long term as evidenced by their performance on Governance and Administration. Costs and charges are a factor, but should not be considered in isolation, or given undue weighting.
  3. In cases where the costs and charges for their scheme are significantly higher than those that can be achieved in the market, for example for some small schemes compared to large master trusts, without a demonstrable, material difference in governance and/or investment return, the DWP would normally expect trustees of these schemes to conclude that they are unable to deliver good value for members.
  4. Pension schemes are a long-term financial product and trustees should ensure members retirement savings are protected by an effective system of governance. Trustees who are finding governance standards challenging should consider their capacity to sustain effective operational resilience in the longer term.
- > XPS' assessment process therefore considers each of these areas, and applies our methodology and experience in determining whether in XPS opinion, the Scheme provides good value for its members overall.
- > Even in a scheme providing good value, improvements may be possible and these are noted in the report as appropriate.
- > Should XPS consider the Scheme not to provide good value, it has set out the main recommendations required in order to improve value in the Executive Summary for the Trustee Board's consideration.
- > Ultimately, the decision on whether a scheme provides good value for its members is for the Trustee Board. The Chair of Trustees is also required to include the conclusion of the value provided in the Chair Statement, and to make this conclusion available online (most likely with the Chair Statement or extracts of this as required by legislation); and also to the Pensions Regulator via the annual Scheme Return.
- > If a scheme is determined as not providing good value, the Trustee Board is responsible for improving it immediately (which is undefined, but XPS suggests can likely be expected to be prior to the next Value for Members assessment period); or, to wind-up the scheme and remove the benefits of it to an arrangement that provides good value.
- > XPS can work with Trustee Boards to determine a suitable plan for the coming period, based on the conclusions reached by the Trustee Board.



#### **Disclaimers and compliance**

This report has been commissioned by and is addressed to the Trustee Directors of the TMD Friction UK Pension Scheme ("Our Client"). The intended user of this report is Our Client. Its scope and purpose are as set out within this report.

This report may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than Our Client may rely on or make decisions based on this report (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 report 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 report 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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# Thank you

**Gordon Bown**  
**Senior DC Consultant**  
**XPS**

#### **Registration**

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XPS Investment Limited, Registered No. 6242672.

XPS Pensions Limited, Registered No. 3842603.

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XPS Pensions (RL) Limited, Registered No. 5817049.

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#### **Authorisation**

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

