

# SONI Limited Pension Scheme (“the Scheme”)

## Chair’s statement regarding the governance of defined contribution benefits

Scheme year - 1 April 2019 to 31 March 2020

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### 1. Introduction

- 1.1. This statement has been prepared by the Trustees of the Scheme (“the Trustees”) to report on compliance with governance standards.
- 1.2. The governance standards apply to defined contribution (DC) arrangements and are designed to help members achieve good outcomes from their pension savings.
- 1.3. This statement covers the scheme year 1 April 2019 to 31 March 2020 (“the Scheme year”).

### 2. The Scheme’s DC arrangements

- 2.1. The Scheme’s DC arrangements comprise:
  - 2.1.1. The Options Section – this section holds the Scheme’s main DC benefits, i.e. those arising from standard contributions and additional voluntary contributions (“AVCs”). These benefits are administered by Barnett Waddingham. Funds are invested through Aegon’s investment-only platform
  - 2.1.2. Bonus Accounts within the Focus Section, the defined benefit section of the Scheme. These accounts hold historic “bonus” contributions made by SONI Limited (“the Company”) and AVCs, and funds are invested alongside the Options Section assets with Aegon.
- 2.2. The Options Section is open to new joiners and future contributions and is used as a ‘qualifying’ workplace pension scheme for automatic enrolment purposes.

### 3. Default arrangement

- 3.1. The Scheme has had three default investment arrangements throughout the reporting period for the purposes of the governance standards. These are as follows:
  - 3.1.1. Aegon BlackRock LifePath Flexi (“Default”) has served as the Options Section default arrangement since 1 May 2018. This strategy uses a ‘target date fund’ approach to de-risk members’ investments as they approach their target retirement age (“TRA”). Through the Default, members invest in a single fund at all times, however BlackRock manage and adjust the underlying investment portfolio to provide an appropriate level of risk at each stage of the member journey, from the inception of the policy and to and through retirement.
  - 3.1.2. The Default is a series of funds with 3 year vintages, which means that the underlying asset allocation is built around investors moving to retirement at some stage in that three year window. LifePath Flexi is designed to target drawdown at a member’s TRA and has been structured to offer a strategy to and through retirement. The drawdown portfolio targets a holding of 40% in equities and 60% in bonds at TRA and is maintained throughout the decumulation phase.
  - 3.1.3. The Trustees considered that the Default may not be appropriate for members who were already approaching retirement (i.e. were less than 5 years from their TRA). As such, the Trustees introduced Aegon BlackRock LifePath Retirement as the default arrangement for both the Options and Focus Section members (in this group) since 1 May 2018.

- 3.1.4. For members who hold Focus Section Bonus Accounts, the Trustees introduced LifePath Capital as the default investment option as members are likely to use their DC pots to fund their Scheme cash entitlement.
  - 3.1.5. Like the Default, both LifePath Capital and LifePath Retirement are a series of funds with 3 year vintages, which means that the underlying asset allocation is built around investors moving to retirement at some stage in that three year window. LifePath Capital is designed to target cash at a member's TRA which is deemed the likely benefit choice for members within the Focus Section. LifePath Retirement is designed to target fixed income in readiness for a member to buy an annuity. The retirement portfolio targets a holding of 25% cash and 75% in fixed income at the member's TRA.
  - 3.1.6. Alongside the default strategies, the Trustees have made all three variants of LifePath (Capital, Flexi and Retirement) available to members on a self-select basis. Six other individual funds are also available that cover the major asset classes. These are managed by BlackRock and LGIM and are hosted on the Aegon platform. The investments available are the same for the Options Section and Focus Section Bonus Accounts
- 3.2. Further details of the Default are set out in the 'Statement of Investment Principles' ("SIP"), which has been appended to this statement. This covers the investment policy in relation to the entire Scheme.

#### Review of the default

- 3.3. No formal review of the default was undertaken in the Scheme year. The strategy and performance of the default were last formally reviewed at a trustee meeting in October 2017, with a formal recommendation to change the default strategy agreed by the Trustees at a further meeting on 9 March 2018.
- 3.4. With assistance from Barnett Waddingham LLP, the Scheme's investment advisors, the Trustees review the performance of all the DC Section investment options, including the defaults, on a quarterly basis. During the reporting period, the Trustees were satisfied that the performance of the defaults was consistent with its aims and objectives, which are outlined in the Statement of Investment Principles. These quarterly reviews are part of the regular governance of the Scheme and do not constitute a formal review of the default investment arrangements which ordinarily follows a three year cycle.

## 4. Core financial transactions

- 4.1. The Trustees have a specific duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following:
  - 4.2.1. Investment of contributions into the Options Section
  - 4.2.2. Transfers into and out of the Scheme
  - 4.2.3. Investment switches within the Scheme
  - 4.2.4. Other payments out of the Scheme (e.g. retirement payments, death payments)
- 4.3. Core financial transactions for both the Options and Focus Sections are undertaken by Barnett Waddingham LLP.

#### Controls in place

- 4.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
  - 4.4.1. The Trustees have Service Level Agreements (SLAs) in place with Barnett Waddingham, the Scheme's administrator. The administrator aims to process at least 95% of core financial transactions within the service level for each type of transaction. Barnett Waddingham undertakes to ensure that core financial transactions are processed within the SLAs set out below:

Core financial transaction	Service Level Agreement
Contribution files	5 working days
Transfer payments (in or out)	5 working days
Investment switches	5 working days
Payments out of the Scheme	5 working days

- 4.4.2. Barnett Waddingham monitors that contributions are paid within regulatory timescales.
- 4.4.3. All tasks completed by an administrator go through a robust checking process and any payments or investment activities in relation to the Scheme are authorised by a senior member of the team.
- 4.4.4. Barnett Waddingham operates a pooled banking facility. The Barnett Waddingham pension administration system is updated daily to show reconciled balances to the pooled banking system. Financial Conduct Authority regulations for holding client monies mean that Barnett Waddingham must carry out an internal and external reconciliation every day.
- 4.4.5. The audit of the Scheme's annual report and accounts.
- 4.4.6. The Trustees monitor the quality of the data held by Barnett Waddingham on an ongoing basis. Both common data and scheme-specific data scores are produced quarterly, and the Trustees will take action to improve data quality wherever possible. As at 31 March 2020, the common data score for the Scheme was 97.70%, and the scheme-specific data score was 89.08%. Under the methodology used, both of these scores indicate "very good data with minimal cleansing requirements".
- 4.4.7. Barnett Waddingham's administration controls and processes are subject to a formal external audit for the annual assurance report on internal controls.
- 4.4.8. Any material issues uncovered regarding inaccuracies with core financial transactions are included within the administrator's regular reporting to the Trustees.

#### Performance during the scheme year

- 4.5. During the Scheme year, Barnett Waddingham provided the Trustees with three administration reports that included reporting of service performance against the SLAs and identified any issues arising regarding administration accuracy.
- 4.6. Over the Scheme year, Barnett Waddingham processed 93% of all tasks (including those relating to core financial transactions) within their target date, however only one of the tasks that failed related to a core financial transaction. In this case, a member's transfer in to the Scheme was invested later than required by the SLA. A lack of communication from the transferring scheme meant that the payment could not be immediately identified once it had been received. Once identified, the administrators assessed that the member had suffered a loss in units from this delay and made a payment into the member's account to fully compensate them for this. The Trustees are therefore satisfied that this failure did not indicate a systemic failure of process nor did it result in financial detriment to the affected member.
- 4.7. The Trustees were not aware of any unresolved issues in relation to core financial transactions at the end of the Scheme year.
- 4.8. The Trustees believe that these measures have enabled them to monitor the promptness and accuracy of core financial transactions, and will allow them to continue to carefully scrutinise SLA achievement going forward.

## Assessment

4.9. In view of the controls and monitoring arrangements in place, and the lack of material issues experienced during the scheme year, the Trustees believe that core financial transactions have been generally processed promptly and accurately.

## 5. Member-borne charges and transaction costs

5.1. Members bear charges and transaction costs, which will differ depending on the investment options in which their pension savings are invested:

5.1.1. Charges: these are expressed as a percentage of the value of a member's holdings within an investment fund, and can be made up of a combination of charges, e.g. annual management charge and additional expenses. We refer to the total annual charge as the Total Expense Ratio (TER).

5.1.2. Transaction costs: these relate to the variable costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the TER charge.

5.2. The table below provides details of the explicit and implicit charges applied to each of the investment options provided through both the Options Section and Focus Section over the Scheme year (data sourced from Aegon as at 31 March 2020).

### Default arrangements

Investment option	TER (p.a.)	Transaction Costs (p.a.)
Aegon BlackRock LifePath Capital 2019-2021	0.360%	0.011%
Aegon BlackRock LifePath Capital 2022-2024	0.360%	0.022%
Aegon BlackRock LifePath Capital 2025-2027	0.360%	0.028%
Aegon BlackRock LifePath Capital 2028-2030	0.360%	0.038%
Aegon BlackRock LifePath Capital 2031-2033	0.360%	0.047%
Aegon BlackRock LifePath Flexi 2025-2027	0.360%	0.035%
Aegon BlackRock LifePath Flexi 2028-2030	0.360%	0.043%
Aegon BlackRock LifePath Flexi 2031-2033	0.360%	0.047%
Aegon BlackRock LifePath Flexi 2034-2036	0.360%	0.060%
Aegon BlackRock LifePath Flexi 2037-2039	0.360%	0.068%
Aegon BlackRock LifePath Flexi 2040-2042	0.360%	0.085%
Aegon BlackRock LifePath Flexi 2043-2045	0.360%	0.091%
Aegon BlackRock LifePath Flexi 2046-2048	0.360%	0.110%
Aegon BlackRock LifePath Flexi 2049-2051	0.360%	0.104%
Aegon BlackRock LifePath Flexi 2052-2054	0.360%	0.114%

Investment option	TER (p.a.)	Transaction Costs (p.a.)
Aegon BlackRock LifePath Flexi 2055-2057	0.360%	0.092%
Aegon BlackRock LifePath Flexi 2058-2060	0.360%	0.091%
Aegon BlackRock LifePath Flexi 2061-2063	0.360%	0.089%
Aegon BlackRock LifePath Retirement 2019-2021	0.360%	0.019%

### Other investment options

Investment option	TER (p.a.)	Transaction Costs (p.a.)
Aegon BlackRock Cash	0.280%	0.011%
Aegon BlackRock Diversified Growth	0.600%	0.337%
Aegon BlackRock Index-Linked Gilt	0.300%	-0.002%
Aegon BlackRock Pre-Retirement	0.300%	0.026%
Aegon BlackRock UK Equity Optimum	0.600%	0.140%
Aegon LGIM Global Equity (50:50) Index	0.310%	0.014%

- 5.3. In certain circumstances, the methodology for calculating transaction costs (known as 'slippage') can lead to negative costs being reported. This can be, for example, where other market activity pushes down the price of the asset being traded, whilst the transaction was in progress, resulting in the asset being purchased for a lower price than when the trade was initiated.

### Impact of the costs and charges applied through the Scheme

- 5.4. To demonstrate the impact of charges and transaction costs on members' pension savings over time, the Trustee has produced illustrations and these are set out in Appendix 1.

### Value for members

- 5.5. The Trustees are required to assess annually the extent to which the charges and transaction costs borne by members represent good value.
- 5.6. Analysis was undertaken by the Trustees' professional advisers, Barnett Waddingham LLP, and the findings set out in a report dated October 2020. The Trustee considered the report and confirmed its value for members' assessment at a meeting on 9 October 2020.
- 5.7. Recognising that low cost does not necessarily mean good value, the assessment considered whether the services for which members pay or share the costs are suitable for, relevant to and (likely to be) valued by members and whether performance of the services had been effective. Consideration was also made of the costs relative to other options available in the market.
- 5.8. Various investment-related services for which members do not directly bear the costs are nevertheless inextricably linked to creating the environment under which investment returns are delivered, e.g. strategy, monitoring and the investment governance structure, so these were included in the assessment.
- 5.9. Other services paid for by the Company were excluded but nevertheless deliver value to members, e.g. the services of professional advisers and the operation of the trustee board, with a duty to act in the best interest of members.

- 5.10. In relation to all of the Scheme's DC arrangements, the member-borne charges and transaction costs relate to the cost of provision of investment management and manager governance services. Administration, communications and broader scheme governance costs are paid for by the Company.
- 5.11. The assessment considered:
- 5.11.1. in relation to investment services:
    - 5.11.1.1. the investment strategy, e.g. the design of the default and range of alternative options
    - 5.11.1.2. the arrangements for monitoring the performance of the investment options and reviewing the investment strategy
    - 5.11.1.3. the investment governance arrangements
  - 5.11.2. the value received from the investment services relative to other options available in the market.
- 5.12. The Trustees concluded that the Scheme's DC arrangements offer **excellent value** in relation to the charges and transaction costs borne by members.
- 5.13. In reaching this conclusion, the Trustees recognised:
- 5.13.1. The Scheme has a governance structure that is appropriate relative to its size and structure. This is documented in the SIP, which has been updated within the Scheme year to reflect the latest regulatory requirements. Investment matters are considered by the full trustee board at meetings with assistance from Barnett Waddingham LLP, an FCA-regulated professional adviser. An independent and professional trustee was appointed as Chair of the Trustees during the period, whose expertise should further strengthen the Scheme's governance going forward.
  - 5.13.2. The Scheme uses LifePath as a default investment strategy. This is a sophisticated range of target date funds that features automatic de-risking and that can be configured by members to suit their own circumstances. These also undergo significant ongoing governance from Aegon, who use these strategies in their workplace pension arrangements, in addition to that undertaken by the Trustees. When these strategies were introduced to the Scheme, members were initially switched into particular LifePath vintages that demographic analysis indicated would best suit their own circumstances, however members also have the ability to self-select from the range of LifePath vintages, or a number of other individual funds on the Aegon platform.
  - 5.13.3. Investment performance monitoring is undertaken on a regular and ongoing basis with the assistance of Barnett Waddingham LLP, the Scheme's investment advisers, and this includes advice on long-term market conditions.
  - 5.13.4. The Scheme default arrangements offer good relative value compared to workplace pension schemes of a similar size and structure.
  - 5.13.5. No matters were identified as detracting value for members.

## 6. Trustee knowledge and understanding

### The Trustee Board

- 6.1. The Trustees comprise five trustees, two of whom are nominated by the members and three of whom are appointed by the Company.
- 6.2. Over the Scheme year, four of the Trustees retired and four new Trustees were appointed in their place. One of the new appointments was a professional trustee company, Dalriada Trustees Limited, who were also appointed as Chair of the Trustees. Dalriada Trustees Limited are represented by Greig McGuinness.

### Trustee knowledge and understanding requirements

- 6.3. The Trustees are required to be conversant with the Scheme's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable them to properly exercise their functions.

### Approach

- 6.4. The Trustees aim to remain conversant with the Scheme's trust deed and rules as well as all other Scheme documents such as the Statement of Investment Principles (SIP), the risk register and current policies, e.g. conflicts of interest. They do so through their experience in governing the Scheme, as well as specific activities over the Scheme year and access to professional advice
- 6.5. The Trustees aim to achieve and maintain knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets through a combination of training, taking professional advice and the inclusion of a professional trustee as a trustee director and chair.
- 6.6. The independent and professional trustee holds multiple trustee roles which provides a breadth of industry experience and exposure to different professional advisers. Dalriada Trustees Limited also provide significant support and oversight for their trustee representatives, including peer review support for significant decisions, internal disclosures and continuous professional development (CPD) requirements. They also have a robust internal handover process should a change in representative on the Scheme's trustee board be required in the future.
- 6.7. There is a training programme in place to meet knowledge gaps and training needs in relation to emerging legislation, Scheme changes and upcoming matters in the Scheme's calendar. The majority of training takes place at trustee meetings, new trustees are required to complete the Pensions Regulator's trustee toolkit. A training log is maintained in relation to training undertaken and is reviewed at each trustee meeting. As a professional trustee, the Chair complies with CPD requirements of both the Association of Professional Pension Trustees and the Pensions Management Institute, in line with their responsibilities as a professional trustee.
- 6.8. The Trustees supplement training received at trustee meetings with further training activities such as attending seminars and conferences, and reading pensions-related articles.
- 6.9. The Trustees consult with professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the Trustees on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Scheme's documents, attending trustee meetings and often in the delivery of training at these meetings.

## Activities over the scheme year

- 6.10. During the Scheme year, in relation to the Scheme documentation, the Trustees:
  - 6.10.1. Updated the Statement of Investment Principles to document the Trustees' policy on the financial materiality of Environmental, Social and Governance (ESG) factors, exercising of voting rights and other non-financial considerations
  - 6.10.2. Reviewed the risk register
  - 6.10.3. Documented strategic objectives for their investment advisers.
  - 6.10.4. Recorded the changes in composition of the trustee board via Deeds of Removal and Appointment.
- 6.11. During the reporting period, the Trustees received training on :
  - 6.11.1. ESG considerations in investment, and new trustee requirements
  - 6.11.2. The requirements of the Pension Regulator's DC Code of Practice.
  - 6.11.3. Value for money in DC pensions.
  - 6.11.4. Requirements on Trustees from the Competition and Markets Authority order.
  - 6.11.5. Legislative updates and developments in the DC pension environment.
- 6.12. During the period covered by this statement, the Trustees took professional advice on:
  - 6.12.1. The annual Value for Member assessment
  - 6.12.2. Completion of the annual DC governance statement
  - 6.12.3. Assessing the Scheme's DC arrangements against the Pensions Regulator's Code of Practice 13
  - 6.12.4. Monitoring of the Scheme's investments
  - 6.12.5. Setting strategic objectives for investment advisers
  - 6.12.6. Consideration of Environmental, Social and Governance (ESG) factors in relation to the Scheme's investment strategy, and how to comply with new associated requirements on Trustees.
  - 6.12.7. Statutory Money Purchase Illustration assumptions

## Assessment

- 6.13. The Trustees comprises of company-appointed and member-nominated trustees from different professional backgrounds who bring a diversity of experience and perspective, and allows for comprehensive consideration of the issues pertinent to the Scheme and its members.
- 6.14. The Trustees consider that their combined knowledge and understanding, together with their access to professional advice, enables them to properly and effectively exercise their trustee functions in the following ways:
  - 6.14.1. The Trustees are able to challenge and question advisers, service providers and other parties effectively
  - 6.14.2. Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties
  - 6.14.3. The Trustees' decisions are not compromised by such things as conflicts or hospitality arrangements.



## 7. Covid-19 pandemic and post year-end activity

- 7.1. Towards the end of, and after the Scheme year, the world experienced the Covid-19 pandemic. The Trustees have identified and continue to manage the key risks posed to the Plan and issued a communication to DC members during the period of investment market volatility that outlined key messages around what is causing this volatility and reassure members about the long-term nature of pension investing.
- 7.2. In addition, the Trustees remain in regular contact with their advisers and service providers to ensure their business continuity plans are in place and are working. All functions of the Trustees' service providers are working as expected but largely from 'remote working' locations.
- 7.3. The Trustees continue to hold meetings albeit in a virtual setting.

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Greig McGuinness

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29 October 2020

Greig McGuinness, of Dalriada Trustees Limited

Chair of the Trustees

Date