*2022 Chair's Statement - PIMCO Europe Limited DC Pension Plan*

## Introduction

Under legislation set out in Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233); and The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations'), the Trustee of the PIMCO Europe Limited DC Pension Plan (the 'Plan') is required to prepare a statement (the 'Statement') on governance in the annual report.

The Trustee is pleased to present the Trustee's annual statement on DC governance for inclusion in the Report and Accounts for the Plan, covering the period 1 July 2021 to 30 June 2022. This statement describes how the Trustee seeks to make sure that the Plan is well-managed and delivers value for money services to members. In doing so, the Trustee provides the various statutory disclosures required by legislation. This statement covers five key areas:

1. The investment strategy relating to the Plan's default arrangement;
2. The processing of core financial transactions;
3. The annualised net return on investments for the lifestyle arrangements and self-select funds;
4. Charges and transaction costs within the Plan;
5. Value for Members assessment; and
6. The Trustee's compliance with the statutory knowledge and understanding requirements.

The Plan was established in June 2014 and is administered by Scottish Widows, through the Mercer Workplace Savings ('MWS') Platform.

The Plan is overseen by a sole Professional Trustee, Zedra Governance Ltd ('Zedra) (formally known as PTL Governance Ltd).

## Default Investment Arrangements

### Review of the default investment strategy and self-select fund range

The Trustee is responsible for setting the Plan's investment strategy and for appointing investment managers to carry out that strategy. The Trustee must also establish a default investment arrangement for members who do not select their own investment options from the fund range that is available.

The Trustee last carried out a strategy review of the default investment strategy in May 2021. This review considered whether the current default investment strategy remains appropriate for Pimco's membership. No changes were to the default investment strategy as a result of this review. The default strategy therefore continues to utilise the Mercer Smartpath™ delegated investment solution for the default arrangement and alternative investment lifestyles for additional self-select investment options. The solution continues to:

- Provide a governed investment solution designed to improve outcomes in retirement by improving risk adjusted returns for members;
- The strategy has a dynamic asset allocation which allows it to be changed for market economic conditions;
- Is a cost effective investment solution; and
- Is designed to facilitate and improve member engagement.

The default growth phase is delivered through the Mercer Growth Fund. Part of Mercer's role is to set the strategic allocation of the fund and then invest relative to this allocation, taking tactical positions dependent on the market environment, with the aim of adding value for investors.

As members approach retirement they will be asked to choose an appropriate Target Retirement Fund that best reflects their likely requirements for income in retirement. The Trustee, on advice from its advisors, continues to believe that asking members to make these decisions nine years from retirement provides a much more realistic decision-making horizon, before de-risking eight years from retirement.

As such, as members approach retirement they will be asked to choose:

- A retirement destination that best reflects their likely requirements for income in retirement – either annuity, cash or drawdown (or some combination of the three); and
- When they want to retire.

The investment of the members' assets will then be moved to an appropriate Target Retirement Fund, corresponding to the member's target retirement year and chosen retirement destination. A member may select the Target Annuity Retirement Path, the Target Cash Retirement Path or the Mercer Target Drawdown Retirement Path. If no decision is made, they will be moved to a default that the Trustee has chosen which is currently the Scottish Widows Mercer Target Drawdown Retirement Path. As part of the triennial investment strategy review in May 2021, the Trustee considered the suitability of the default lifestyle strategy targeting drawdown and concluded that it remains suitable and fit for purpose. The structure of the Target Drawdown Retirement Path is suitable for members who wish to take drawdown at retirement as it:

- Manages volatility: by reducing the allocation to the most volatile component of the asset allocation – equities – first.
- Is dynamically managed: the asset allocation is dynamically managed in response to market conditions by Mercer's Fiduciary Management business.
- Utilises the Mercer Diversified Retirement Fund: which balances risk and return and is tailored to the needs of an investor who wishes to remain invested through retirement.

The Trustee considers that it is important that Environmental, Social and Governance factors are incorporated into the Plan's investments. This is achieved using a "four-pillar framework". These four pillars ensure that sustainability in the Plan is considered across different dimensions, which are:

- Integration. The Trustee expects investment managers to consider any Environmental, Social, or Governance factor that might impact the value of members' pension savings and to incorporate this into their decision-making process.
- Stewardship. The Trustee expects investment managers to have strong processes in place to ensure they are voting and engaging with companies to protect investors' interests.
- Investment. The Trustee believes that investing in sustainable themes, like reducing greenhouse gas emissions, can offer return opportunities and can also help to manage risks. For this reason, there is an allocation to a specific sustainable-focused fund within the default. The Trustee also makes sustainable-focused funds available in the self-select fund range.
- Screening. Although the Trustee prefers to engage with companies, they also want to avoid profiting from activities that don't align with investors' values. For example, investments are not made in companies involved in the production of cluster munitions.

When considering climate change in particular, the Plan's chosen default investment strategy – the Mercer Growth Fund – has made a pledge to target net zero carbon emissions by 2050.

The Trustee also offers members a range of active and passive self-select options via the Scottish Widows platform, which were also considered as part of the most recent investment strategy review in May 2021. The 'self-select' funds are for members who want to tailor their investments to suit their own characteristics.

The key investment principles that were considered as part of this review in May of 2021 of the self-select fund options included:

- Reduce/eliminate any duplicate funds;
- For rationalisation purposes, use passive funds, unless there is a clear case for active management;
- Where active funds are used, use the Mercer white-labelled funds. White-labelling is not required for the passive funds;
- Retain PIMCO funds within the self-select range, where possible and where there is investment rationale to do so.

As part of the review of the Plan's investment arrangements, the Trustee agreed to make a number of changes, namely:

- To add the Mercer Passive Sustainable Global Equity Fund and the PIMCO Dynamic Multi-Asset Fund to the self-select options available to Plan members; and

- To remove the LGIM Passive Global Equity (30:70) Fund, the Mercer Active Emerging Market Equity and the PIMCO UK Long Term Corporate Bond Fund from the Plan's self-select fund range.

These changes were implemented by November 2021.

The Trustee was initially minded to also remove the PIMCO Emerging Market Bond Fund and the PIMCO Global High Yield Bond Fund. However, after consulting with the employer, the Trustee has agreed to instead keep both funds under close review.

Whilst the following changes took place in November 2021, one member was allowed to invest in the Mercer Active Emerging Markets Equity Fund in error after this date. This member has since been moved from this fund to the default, and Scottish Widows' investigations concluded the member in question initiated their switch in November 2021, immediately before the fund was removed, and as such this fund switch was processed and not picked up by the team when existing members' holdings were disinvested. As a result of this, Scottish Widows have confirmed that they will be factoring in a further post changes report 5-7 days after funds have been removed. This is being shared across their wider Implementation Team and it will also be added to their rolling 'lessons learnt log'.

Over the year the Trustee and their advisers have reviewed the performance of the investment funds and the current default arrangement against their stated objectives on a quarterly basis. To enable the Trustee to review the performance of the investment funds, MWS provide the Trustee with quarterly reports that highlight net performance against benchmarks and also any change to the rating Mercer assigns to the underlying funds (including ESG ratings where appropriate).

These reports are reviewed by the Trustee and where there have been any concerns these are raised with the investment manager via Mercer. Each regular review focusses, in particular, on the extent to which the return on investments relating to the default arrangement, including any technical defaults (after deduction of any costs and charges which are relevant to those investments) is consistent with the Trustee's aims and objectives in respect of the default arrangements (as recorded in the SIP). The Trustee may also at times undertake reviews of specific aspects of the SIP and the performance of the default arrangements.

### Technical defaults

In March 2020, the underlying investment manager(s) of the Plan's UK Property Fund, Threadneedle, suspended trading in their fund owing to difficulties valuing properties as a result of COVID-19 in the first three quarters of 2020. As a result, member's contributions were re-directed to the Cash Fund, without member consent, on a temporary basis, unless they took action to select an alternative investment. Guidance released by the Department for Work & Pension in April 2018 refers to when members' funds are moved within a scheme without consent, should be classed as a default arrangement (technical default). The Trustee is therefore reporting the following fund as technical default within the Plan:

- Mercer Cash Fund, identified as a default in April 2020.

The Trustee's objective in using this fund as the technical default was to aim to preserve the value of any contributions invested rather than to seek long term investment growth. It is also appropriate as the cost of this fund is below the charge cap.

The Cash Fund has the lowest expected volatility of the funds available in the Plan.

### Statement of Investment Principles

In accordance with the Administration Regulations, the Trustee has appended (under Appendix A) the latest copy of the Statement of Investment Principles (the 'SIP'), incorporating the default SIP, prepared for the Plan in compliance with Section 35 of the Pensions Act 1995 and regulation 2 / regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, adopted on 18th January 2022.

The SIP is also available on request, by contacting the HR team. Furthermore, this Statement is published on a publically available website, www.pimco.co.uk, and is signposted in the annual benefit statements, which are issued by Scottish Widows.

The SIP covers the following key matters in relation to the default arrangement (including any technical defaults):

- The Trustee's aims and objectives in relation to the investments held in the default arrangement;
- The Trustee's policies on issues such as: the kinds of investments to be held; the balance between different kinds of investments; risks, including the ways in which risks are to be measured and managed; the expected return on investments; the realisation of investments; and the extent (if at all) to which Environmental, Social or Governance (ESG) considerations are taken into account when selecting, retaining or realising investments;
- An explanation of how these aims, objectives and policies (which together form the Trustees "default strategy") are intended to ensure that assets are invested in the best interests of members whose benefits are invested in the default arrangement.

## Core Financial Transactions

As required by the Administration Regulations, the Trustee must ensure that "core financial transactions" are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Plan by members and their employer(s);
- Transfers into and out of the Plan of assets relating to members;
- Switches of members' investments between different funds within the Plan; and
- Payments from the Plan to or in respect of members/beneficiaries (e.g. payment of death benefits).

The Trustee monitors this through:

- Agreeing minimum timescales for processing requests, including core financial functions with Scottish Widows, as the Plan's delegated administrator. The Trustee reviews this through the administration reports produced by Scottish Widows quarterly, which provides information to the Trustee on how promptly and accurately transactions and member enquiries are dealt with. The Trustee has historically identified that reporting could be improved in order to provide clarity on the timing of payment of contributions. As a result of their discussions with the administrators, Scottish Widows, improvements to the reporting have been requested. As these changes were not implemented during the Plan year, Mercer (on behalf of the Trustee) request that Scottish Widows confirm the date contributions were received each quarter.
- Reviewing any complaints received from the membership to see if there are any concerns with the administration provided by Scottish Widows.
- Scottish Widows own internal quality control processes, which ensure the accuracy of transactions.
- The Trustee also maintains a Risk Register, which is used to manage any risks occurring and potentially impacting the Plan.
- A Schedule of Contributions, which sets out timescales for the Company to remit monthly contributions to the Plan. The deduction and payment of contributions is reviewed by the Company and Trustee.
- All financial transactions are subject to annual audit requirements as part the Trustees Annual Report and Accounts.

The Trustee has an administration agreement in place with Scottish Widows through the Mercer Workplace Savings (MWS) platform. The administration agreement sets out the service standards expected of Scottish Widows and if Scottish Widows' service falls below the Service Level Failure Point for the same SLA over three consecutive quarters then financial penalties are payable to the Trustee by Scottish Widows until the situation is rectified. These penalties are designed to incentivise Scottish Widows, to continually meet service standards.

The expected service standards are:

| SLA | Description | Target Service Level (%) | Service Level Failure Point (%) | Comment |
|---|---|---|---|---|
| 2 | Website Availability | 99.5 | 97.5 | Scottish Widows shall ensure that the Website is available to Users during the hours of 08:00 and 17:30 on Business Days. |
| 3 | Documentation | 97.0 | 85.0 | Scottish Widows shall provide electronic access to policy documentation held within the portal library to members |

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| | | | | within two Business Days of receipt of all required new joiner details submitted in an electronic format from either the Client or a Member. Hard copies, where issued, will be issued within five Business days of receipt of all required new joiner details submitted in hard copy format. |
| 4 | Contribution Processing | 100.0 | 90.0 | Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall process regular contributions and allocate to Member policies within two Business Days of receipt of the validated contribution schedule and reconciled payment. |
| 5 | Investment Transactions | 97.0 | 85.0 | Scottish Widows shall action investment transaction (switches, redirections and single contributions where appropriate) requests from Members or Trustees within three Business Days from the date of receipt of complete instructions. |
| 6 | General Enquiries | 97.0 | 85.0 | Scottish Widows shall respond to non-complex general enquiries from Members (such as valuations, projections, contribution statements and change of details) within five Business Days of receipt of the enquiry. |
| 7 | Payments Out | 97.0 | 85.0 | Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall process payments out within five Business Days of receipt of the completed payment authority form and all required documentation from the authorised party. In respect of payments to Members on retirement, the period of five (5) Business Days referred to in this SLA shall commence from the normal retirement age of the retiring Member. |
| 8 | Payments In | 97.0 | 85.0 | Subject to the completion of the longest delayed dealing cycle, Scottish Widows shall issue confirmation to Members or Trustee Clients that transferred assets have been allocated as at the date of |

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| | | | | receipt of both payment and complete documentation within five Business Days of receipt. |
| 9 | Complaints | 0.01 | 0.02 | Scottish Widows shall ensure that upheld complaints constitute not more than 1 in every 10,000 (0.01%) lives within the Mercer Platform book on a monthly basis. |
| 10 | Helpline | 97.0 | 95.0 | Scottish Widows shall answer all calls to the Mercer helpline during the hours of 08:00 and 17:30 Monday to Friday (excluding Bank/Public Holidays). |

The overall performance attained during the reporting period was 98% of events being processed within the agreed target dates.

The administrator has adopted a number of processes to ensure that core transactions are carried out promptly and accurately. These include:

- Daily monitoring of bank accounts,
- A dedicated contribution processing team, and
- Two individuals checking all investment and banking transactions.

Adherence to these processes is reviewed annually by the Trustee through the AAF 01/06 report provided by Scottish Widows, which is an independent audit of compliance with their internal controls and processes. The latest AAF report was shared with the Trustee in June 2022, for the period 1st January 2021 to 31st December 2021, and did not report any material concerns with the controls and processes in place.

During the Plan year, the Trustee noted instances in single quarters, in which Service Levels were not achieved, however the service did not fall below the level to trigger payment of a financial penalty. The Trustee did raise concerns about this to Scottish Widows and although the majority of core financial transactions were completed promptly and accurately, Scottish Widows met with the Trustee after the Plan year during a Site Visit held on 13th July 2022, to advise what actions they were taking in order to improve service levels and to assure the Trustee that members of the Plan would not be disadvantaged.

. Issues and errors identified during the Plan Year included:

- In 2019 and 2020 Scottish Widows changed how they share member's personal data across different systems within Scottish Widows and the wider Lloyds Banking Group (LBG). The changes that were made meant that some of the systems used for administration purposes can now be accessed by LBG colleagues based outside the UK\EEA. No trustee consent was

taken before this change was made. Trustee consent has now been granted following legal advice and appropriate due diligence;
- It was discovered that a non-permissioned fund has been added to the Scheme's fund range (the Global Infrastructure Fund) without Trustee consent. Scottish Widows have confirmed that new controls have been put in place that include signed instructions from the Trustee needed, going forward. Mercer, our investment adviser, has since provided formal advice regarding this fund's addition and the Trustee has agreed to retain this fund within the fund range; and
- As part of the governance report, the Trustee has asked for the month of the contribution to be included alongside the payment receipt dates so it can be seen clearly as to whether these contributions are being paid in sufficient time ahead of the statutory deadline. It was noted at the Site Visit that Scottish Widows would produce an appendix to their governance reports to support this.

Scottish Widows have rectified these issues to ensure that the impacted members suffered no financial loss as a result of these errors. Mercer has also established regular calls on a monthly basis with Scottish Widows to ensure that any identified problems are rectified quickly and steps taken to ensure that these errors do not re-occur.

On behalf of the Trustee, Mercer also oversees the performance of Scottish Widows through the Mercer Workplace Savings platform that the Plan is operated through, examining operational performance to determine the performance trends. This includes areas of day-to-day operations, SLA performance and complaints. All activity is discussed and documented with actions carried forward and monitored both at a client and portfolio level. Mercer would raise any concerns with the Trustee quarterly, or more regularly if deemed urgent, with details of operational performance and the key points from their governance.

During the Plan year, the Trustee continued to review the actions it takes in meeting the expectations of the Pensions Regulator, as set out under its DC Code of Practice 13 for the governance and administration of defined contribution pension schemes. The Code sets out the standards of conduct and practice that the Regulator expects trustee boards to meet in complying with their duties in legislation. The Trustee, with support from Mercer has put in place an action plan which is reviewed annually and these actions have been included within the Business Plan. Actions included:

- Carrying out a site visit at Scottish Widows every three years. As already noted, the Trustee last visited Scottish Widows in July 2022.

## Charges and Transaction Costs

As required by the Administration Regulations, the Trustee is required to report on the member borne charges and transaction costs for the investments used in the default investment option as well as the wider fund choice available and assess the extent to which the charges and costs represent good value for members.

The total charges payable, quoted in the following table as TER (Total Expense Ratio), applicable to the Plan's default arrangement (including any technical defaults) are detailed below. The TER is a measure of the total costs associated with managing and operating an investment fund. These costs consist primarily of management fees and additional expenses, such as trading fees, legal fees, auditor fees, and other operational expenses. The Trustee can confirm that the default funds remain within the charge cap of 0.75% p.a. of funds under management since April 2015 and Scottish Widows monitors these charges on a quarterly basis to ensure they remain below this cap.

| Fund Name | TER (% p.a.) | Transaction Costs (% p.a.) |
|---|---|---|
| Mercer Growth | 0.401 | 0.156 |
| Mercer Drawdown Retirement | 0.443 | 0.078 |
| Mercer Target Drawdown 2024 Retirement | 0.450 | 0.100 |
| Mercer Target Drawdown 2027 Retirement | 0.440 | 0.131 |
| Mercer Target Drawdown 2028 Retirement | 0.430 | 0.139 |
| Mercer Target Drawdown 2029 Retirement | 0.420 | 0.146 |
| Mercer Target Drawdown 2030 Retirement | 0.411 | 0.153 |
| Mercer Cash | 0.250 | 0.016 |

***Source:*** *Mercer and Scottish Widows. Fee Data as at 30 June 2022.*

The Trustee has also adopted a range of risk profiled funds and a range of passively and actively managed funds under the "Leave me to it" section, which allows members to tailor their own investment strategy. The charges (TER) and transaction costs for the self-select funds in which members were invested in during the Plan year, are detailed below:

| Fund Name | TER (% p.a.) | Transaction Costs (% p.a.) |
|---|---|---|
| Mercer Active Global Equity | 0.871 | 0.219 |
| Mercer Active Global Small Cap Equity | 1.040 | 0.427 |
| Mercer Global Listed Infrastructure | 1.030 | 0.262 |
| Mercer Active Emerging Markets Equity* | 1.110 | 0.946 |
| Mercer Diversified Growth | 0.450 | 0.190 |
| Mercer Passive Sustainable Global Equity Hedged | 0.300 | 0.093 |
| Mercer Shariah | 0.490 | 0.016 |
| BlackRock - Passive UK Equity | 0.218 | 0.082 |
| BlackRock - Passive Overseas Equity | 0.225 | 0.019 |
| BlackRock - Passive US Equity | 0.213 | 0.036 |
| BlackRock - Passive Europe (ex-UK) Equity | 0.230 | 0.000 |
| BlackRock - Passive Japan Equity | 0.217 | 0.000 |
| BlackRock - Passive Asia Pacific (ex-Japan) Equity | 0.225 | 0.020 |
| BlackRock - Passive Emerging Markets Equity | 0.420 | -0.034 |
| BlackRock - Passive Fixed Interest Gilts | 0.219 | -0.027 |

| | | |
|---|---|---|
| BlackRock - Passive UK Corporate Bonds | 0.230 | 0.033 |
| BlackRock - Passive Index-Linked Gilts | 0.219 | 0.057 |
| PIMCO - Emerging Markets Bond | 1.050 | 0.130 |
| PIMCO - Global High Yield Bond | 0.750 | 0.090 |
| PIMCO - Global Investment Grade Credit | 0.680 | 0.130 |
| PIMCO - Income Strategy | 0.740 | 0.140 |
| PIMCO - Diversified Income | 0.880 | 0.120 |
| PIMCO – Dynamic Multi Asset | 1.080 | 0.190 |
| LGIM - Pre-Retirement | 0.255 | 0.000 |
| Threadneedle – Property | 0.840 | 0.383 |

***Source:*** *Mercer and Scottish Widows. Fee Data as at 30 June 2022.*
**This fund has been removed from the Plan's fund range post-Plan year end.*

In the context of a DC pension plan, transaction costs arise from the buying and selling of assets when members buy and sell units of funds or when managers trade within pooled funds. These costs of manager trading are borne by members. Transaction costs are those which members may incur when switching their investments between the investment funds that are available. Where there is a negative transaction cost, this indicates that transacting has resulted in a net revenue rather than a net cost for the fund.

There is little flexibility for the Trustee to impact transaction costs as managers will essentially pass on the underlying costs of buying and selling securities in the market. Further, the turnover level of trading will impact the level of costs i.e. passive managers will have low levels of trading and low levels of cost whilst active managers will have the opposite – it will be difficult to compare managers, even between active managers.

**(c) Net returns on investments**

The tables below set out annualised net performance for the 1 and 5 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range.

| Lifestyle strategies – Drawdown, Cash and Annuity Strategies* | Annualised returns to 30 June 2022 (%) | |
|---|---|---|
| | 1 year (%) | 5 years (%) |
| Age of member | | |
| 25, 45 | -8.1 | 4.2 |
| 55 | -8.1 | 3.9 |

Source:
*As the growth phase is equal between lifestyles, the expected returns are assumed to be the equal as well. 5 year performance is unavailable due to the inception date of the fund.

| Self-select funds* | Annualised returns to 30 June 2022 (%) |
|---|---|

| | 1 year (%) | 5 year (%) |
|---|---|---|
| Mercer Active Global Equity | -9.1 | 8.2 |
| Mercer Active Global Small Cap Equity | -15.2 | 6.4 |
| Mercer Global Listed Infrastructure | 13.8 | -* |
| Mercer Active Emerging Markets Equity | -20.0 | 2.1 |
| Mercer Cash Fund | 0.1 | 0.2 |
| Mercer Diversified Growth | -6.8 | 3.7 |
| Mercer Passive Sustainable Global Equity Hedged | -13.2 | -* |
| Mercer Shariah | -2.4 | 13.0 |
| BlackRock - Passive UK Equity (c) (d) | -0.7 | 2.7 |
| BlackRock - Passive Overseas Equity (c) (d) | -4.4 | 9.3 |
| BlackRock - Passive US Equity (c) (d) | -1.6 | 12.2 |
| BlackRock - Passive Europe (ex-UK) Equity | -12.2 | 3.7 |
| BlackRock - Passive Japan Equity (d) | -9.3 | 3.0 |
| BlackRock - Passive Asia Pacific (ex-Japan) Equity | -10.8 | 3.9 |
| BlackRock - Passive Emerging Markets Equity | -15.3 | 3.3 |
| BlackRock - Passive Fixed Interest Gilts (d) | -24.2 | -2.2 |
| BlackRock - Passive UK Corporate Bonds | -13.5 | -0.1 |
| BlackRock - Passive Index-Linked Gilts | -23.3 | -1.7 |
| PIMCO - Emerging Markets Bond | -20.9 | -2.1 |
| PIMCO - Global High Yield Bond | -14.2 | -0.3 |
| PIMCO - Global Investment Grade Credit | -16.1 | -1.0 |
| PIMCO - Income Strategy | -10.2 | -* |
| PIMCO - Diversified Income | -18.6 | -0.9 |
| PIMCO - GIS Dynamic Multi Asset | -11.5 | -* |
| LGIM - Pre-Retirement | -20.0 | -1.3 |

| | | |
|---|---|---|
| Threadneedle - Property | 24.4 | 6.7 |

*Source: Mercer and Scottish Widows*

** Performance is not available for some funds due to their recent inception dates.*

## Reporting of Costs and Charges

Using the charges and transaction cost data provided by Scottish Widows and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustrations have taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has based this on the average member age of 35, using a starting pot size of £34,000 and contributions of £1,475pcm.

| | **Most Popular Arrangement by members** | **Cheapest Fund** | **Highest Expected Return Fund** | **Lowest Expected Investment Return** | **Most Expensive Fund** | **Technical Default** |
|---|---|---|---|---|---|---|
| | Mercer Target Drawdown Retirement Lifestyle Strategy* | BlackRock – Japanese Equity | BlackRock – US Equity | PIMCO GIS Emerging Markets Bond | PIMCO GIS Dynamic Multi Asset | Mercer Cash |
| | (TER range 0.40% p.a. to 0.45% p.a.) | (TER 0.217% p.a.) (Transaction Cost 0.00% p.a.) | (TER 0.213% p.a.) (Transaction Cost 0.036% p.a.) | (TER 1.050% p.a.) (Transaction Cost 0.130% p.a.) | TER 1.080% p.a.) (Transaction Cost 0.190% p.a.) | TER 0.250% p.a.) (Transaction Cost 0.016% p.a.) |

| Year | (Transaction Cost range 0.078% p.a. to 0.156% p.a.) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) |
| 1 | 51,900 | 51,700 | 52,400 | 52,400 | 52,400 | 52,400 | 51,100 | 50,600 | 51,500 | 51,000 | £51,074 | £50,939 |
| 3 | 88,400 | 87,400 | 90,800 | 90,400 | 90,800 | 90,400 | 84,800 | 82,800 | 86,700 | 84,400 | £84,464 | £83,935 |
| 5 | 125,000 | 123,000 | 131,000 | 130,000 | 131,000 | 130,000 | 118,000 | 113,000 | 122,000 | 117,000 | £116,870 | £115,788 |
| 10 | 222,000 | 215,000 | 240,000 | 237,000 | 240,000 | 237,000 | 198,000 | 185,000 | 210,000 | 196,000 | £193,764 | £190,680 |
| 15 | 325,000 | 310,000 | 364,000 | 357,000 | 364,000 | 357,000 | 275,000 | 251,000 | 300,000 | 270,000 | £265,112 | £259,257 |
| 20 | 434,000 | 408,000 | 503,000 | 491,000 | 90,800 | 90,400 | 349,000 | 309,000 | 391,000 | 341,000 | £84,464 | £83,935 |
| 25 | 548,000 | 508,000 | 661,000 | 640,000 | 661,000 | 640,000 | 420,000 | 363,000 | 482,000 | 408,000 | £392,742 | £379,553 |
| 30 | 653,000 | 596,000 | 839,000 | 807,000 | 240,000 | 237,000 | 488,000 | 411,000 | 574,000 | 471,000 | £193,764 | £190,680 |

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £34,000
3. Contributions of £1,475pcm are assumed from age 35 to 65 years with no change to salary
4. Values are estimates and are not guaranteed
5. The projected growth rate for each fund are as follows:
   A. Mercer Target Drawdown Retirement Lifestyle Strategy (Most Popular Arrangement by members): 0.0%-1.0%% p.a. gross expected real return above inflation depending on the numbers of years to retirement.
   B. BlackRock Japanese Equity (Cheapest Fund): 2.40% p.a. gross expected real return above inflation
   C. BlackRock Passive US Equity (Greatest Expected Return): 2.40% p.a. gross expected real return above inflation
   D. PIMCO GIS Emerging Markets Bond (Lowest Expected Investment Return): 0.90% p.a. gross expected real return above inflation
   E. PIMCO GIS Dynamic Multi Asset (Most Expensive Fund): 0.1% p.a gross expected real return above inflation
   F. Mercer Cash Fund (Technical Default): -1.50% p.a. gross expected real return relative to inflation
6. The Transaction Costs relate to the average transaction costs incurred in the last three Plan years. Where a transaction cost has been recorded as a negative, we have revised this within the illustration to reflect 0.0% per annum.

The Trustee has presented a further illustration below to represent the average deferred member of the Plan.

The Trustee has therefore based this on the average deferred member at the age of 35, using a starting pot size of £34,000. It is assumed that there are no contributions being paid to the Plan.

| Year | **Most Popular Arrangement by members** | | **Cheapest Fund** | | **Highest Expected Return Fund** | | **Lowest Expected Investment Return** | | **Most Expensive Fund** | | **Technical Default** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mercer Target Drawdown Retirement Lifestyle Strategy* | | BlackRock – Japanese Equity | | BlackRock – US Equity | | PIMCO GIS Emerging Markets Bond | | PIMCO GIS Dynamic Multi Asset | | Mercer Cash | |
| | (TER range 0.40% p.a. to 0.45% p.a.) (Transaction Cost range 0.078% p.a. to 0.156% p.a.) | | (TER 0.217% p.a.) (Transaction Cost 0.00% p.a.) | | (TER 0.213% p.a.) (Transaction Cost 0.036 p.a.) | | (TER 1.050% p.a.) (Transaction Cost 0.130% p.a.) | | TER 1.080% p.a.) (Transaction Cost 0.190% p.a.) | | TER 0.250% p.a.) (Transaction Cost 0.016% p.a.) | |
| | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) | Pot Size with no Charges Incurred (£) | Pot Size with Charges Incurred (£) |
| 1 | 34,300 | 34,100 | 34,800 | 34,700 | 34,800 | 34,700 | 33,700 | 33,300 | 34,000 | 33,600 | £33,495 | £33,406 |
| 3 | 35,100 | 34,500 | 36,500 | 36,300 | 36,500 | 36,300 | 33,100 | 31,900 | 34,100 | 32,900 | £32,507 | £32,250 |
| 5 | 35,900 | 34,900 | 38,300 | 37,900 | 38,400 | 37,900 | 32,500 | 30,700 | 34,300 | 32,200 | £31,548 | £31,133 |
| 10 | 38,000 | 36,000 | 43,300 | 42,300 | 43,400 | 42,300 | 31,200 | 27,700 | 34,600 | 30,500 | £29,273 | £28,508 |
| 15 | 40,200 | 37,000 | 48,800 | 47,300 | 49,000 | 47,200 | 29,900 | 25,000 | 34,900 | 28,800 | £27,162 | £26,105 |
| 20 | 42,500 | 38,100 | 55,100 | 52,800 | 55,400 | 52,700 | 28,600 | 22,600 | 35,200 | 27,300 | £25,203 | £23,904 |
| 25 | 45,000 | 39,200 | 62,200 | 58,900 | 62,600 | 58,900 | 27,400 | 20,400 | 35,600 | 25,900 | £23,385 | £21,888 |

Notes:
1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. The starting pot size is assumed to be £34,000
3. Values are estimates and are not guaranteed
4. The projected growth rate for each fund are as follows:
   A. Mercer Target Drawdown Retirement Lifestyle Strategy (Most Popular Arrangement by members): 0.0%-1.0%% p.a. gross expected real return above inflation depending on the numbers of years to retirement.

B. BlackRock Japanese Equity (Cheapest Fund): 2.40% p.a. gross expected real return above inflation
C. BlackRock Passive US Equity (Greatest Expected Return): 2.40% p.a. gross expected real return above inflation
D. PIMCO GIS Emerging Markets Bond (Lowest Expected Investment Return): 0.90% p.a. gross expected real return above inflation
E. PIMCO GIS Dynamic Multi Asset (Most Expensive Fund): 0.1% p.a gross expected real return above inflation
F. Mercer Cash Fund (Technical Default): -1.50% p.a. gross expected real return relative to inflation

5. The Transaction Costs relate to the average transaction costs incurred in the last three Plan years. Where a transaction cost has been recorded as a negative, we have revised this within the illustration to reflect 0.0% per annum.

*The TER and transaction costs applicable during the Mercer Target Drawdown Retirement Lifestyle Strategy depend upon how close a member is to retirement. During the growth phase (with more than eight years to retirement), a member is invested in the Mercer Growth Fund. With less than eight years to retirement, assets are gradually moved out of the Mercer Growth Fund and into the Mercer Diversified Retirement Fund and BlackRock Cash Fund. Details of the member borne charges applicable to each of these funds can be found listed in the table above.

**Value for Members**

The Trustee is required to assess the extent to which the Plan delivers value for members across three key areas:

| Assessment area | Type of assessment |
|---|---|
| Costs and charges | Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs. |
| Net investment performance | Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges. |
| Governance and administration | Standalone assessment of the Plan’s governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; trustee knowledge and understanding; member communications; and management of conflicts of interest |

The Trustee has carried out a value for members assessment as at 30 June 2022. The conclusions of this assessment are set out in the table below:

| Assessment area | Conclusion |
|---|---|
| Costs and charges | The Trustee has assessed the Plan as offering reasonable value from a costs and charges perspective, when also accounting for investment performance of the options assessed. While charges are generally higher than the comparators, in some cases this has been compensated by higher net investment performance over the periods assessed. |
| Net investment performance | The Trustee has assessed the Plan as offering reasonable value from a net investment performance perspective. Performance has been mixed compared with the comparator arrangements, while the Trustee notes the strategy's stronger focus on diversification and risk management relative to some of the comparators. |
| Governance and administration | The Trustee has assessed the Scheme as offering good value from a governance and administration perspective. |
| **Overall** | Overall, considering all three areas set out above, the Trustee has assessed the Scheme as offering reasonable value for members.<br><br>Based on its assessment, the Trustee has identified better value may be available through a larger DC arrangement such as a master trust, and as such is working alongside their investment adviser and the Employer to investigate this option further. |

This Statement will be published on a publically available website, www.pimco.co.uk, and will be signposted in the annual benefit statements, which are issued by Scottish Widows.

**Knowledge and Understanding**

The Plan is run by a sole Professional Trustee, Zedra Governance Ltd (previously known as PTL Governance Ltd). Following PTL being acquired by Zedra Governance Limited at the end of 2021, PTL Governance Limited changed its name with effect from 7 July 2022 to Zedra Governance Limited (Zedra). Zedra is a specialist provider of independent governance services primarily to UK pension arrangements. Amongst other appointments Zedra act as an independent trustee on over two hundred trust based pension schemes and sit on a number of Investment Governance Committees (IGCs). Zedra has oversight or responsibility for in excess of £120bn of pension assets. More information on Zedra can be found at www.zedra.com. There have been no changes to the Trustee over the year.

Zedra have a training program for all of their staff and are subject to independent audit on their controls and processes through the AAF 02/07 reporting. As part of the AAF process, the Trustee is required to confirm that the current team have appropriate level of knowledge and understanding to be able to represent Zedra as Trustee of the Plan. The annual review process within Zedra identifies training needs for each individual and includes a requirement for relevant staff to undertake a minimum level of Continuing Professional Development (CPD) each year. Two nominated Client Directors are assigned to work on all Zedra sole trustee appointments. The Client Directors liaise regularly on scheme related matters and all key decisions must be signed off by both Client Directors, or escalated to another Client Director for peer review in the event of a differing opinion.

Clare James acted as the lead Client Director managing the Plan for the Plan year supported by a second Client Director, Payam Kazemian. Debbie Mather and other members of the Zedra team also provide day-to-day support and peer review functions. Clare is a qualified actuary and so, has an in depth understanding of the funding and investment issues related to the Plan. Clare holds the PMI Certificate in Pension Trusteeship and she is accredited as a Professional Trustee by the Association of Professional Pension Trustees (APPT). Over the period, Clare has met the CPD requirements of the actuarial profession and the APPT.
Clare has undertaken regular relevant training throughout the year including:

- ESG, climate change and TCFD Regulations;
- Reviewing DC investment strategies and in particular default funds, including integration of ESG;
- Responsible investment;
- Stewardship;
- Requirements of the new combined Code of Practice; and
- GDPR and cyber security.

Payam Kazemian has an in depth understanding of the funding and investment issues related to the Plan. Payam is also subject to CPD requirements and is an accredited Professional Trustee with the Association for Professional Pension Trustees (APPT). Payam has undertaken regular training throughout the year including:

- Diversity for pension schemes;
- Approach to drawdown;
- Pension scams;
- Managing administration provider;
- Trends in Master Trust market; and
- GDPR.

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding that, together with professional advice available to them, enables them to properly exercise their functions and duties in relation to the Plan.

The table below shows how these requirements have been met during the year.

| Requirement | How met |
|---|---|
| Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the trust deed and rules. | The Trustee is conversant with, and has demonstrated a working knowledge of, the Trust Deed and Rules by having access to the documents on their online directory and providing decisions in line with the Rules. If there are any ambiguities over the interpretation of the Rules, legal advice is sought from the Plan's Lawyers Sackers LLP.<br><br>The Trustee confirms that the current team has an appropriate level of knowledge and understanding and Plan specific understanding to be able to represent Zedra as the Trustee of the Plan. |
| Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of the current SIP. | The Trustee is conversant with, and has a working knowledge of the current SIP, which has recently been revised. The Trustee undertakes regular training on investment matters and Zedra is a regular commentator on the wider DC market. The Trustee has sufficient knowledge of investment matters to be able to challenge their advisor.<br><br>During the year, the SIP was reviewed and updated following the investment strategy review, agreed and signed on 18 January 2022. |
| Trustees must describe how, through the scheme year the trustees have demonstrated a working knowledge of all documents setting out the trustees' current policies. | Zedra operates a governance framework which includes policies on how the Trustee will deal with conflicts, manage risk, ensure key tasks are completed in time and deal with member complaints. The Trustee reviews these documents on an annual basis to ensure they are still suitable and makes any changes as required. The Trustee reviewed of the Code of Practice 13 requirements during the Plan year on 2 November 2021 and has subsequently been reviewed at the Trustee Meeting on 1 December 2022.<br><br>The Trustee is conversant with, and has demonstrated a working knowledge of, the Plan documents, which has been achieved through the maintenance of an online directory that contains all the relevant documents and policies. The Trustee with its knowledge and understanding of pension schemes, the issues faced and their governance framework, when working alongside its advisors is able to properly exercise its functions to act properly and effectively in members' best interests and deliver good member outcomes |

| | |
|---|---|
| | for the contributions made. At each meeting the Trustee reviews the business plan and whether they have effectively delivered the requirements under the business plan.<br><br>In addition, during the Plan year:<br>• The Trustee prepared an Implementation Statement.<br>• Last reviewed the Risk Register in December 2021 and will be reviewed again in February 2023 |
| Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the law relating to pensions and trusts. | Zedra work for a broad range of clients and are familiar with the law relating to pensions and trusts. This can be demonstrated through the qualifications held by the Trustee and their continued involvement with many pension schemes.<br><br>The Trustee's advisors, Mercer, attend each meeting and give the Trustee an overview of market and legislative developments, including the Trustees duties and requirements for strong governance. In addition, Mercer provide specific training on any relevant aspect ahead of any scheme reviews or new legal requirements. |
| Trustees must describe how, through the scheme year the trustees have demonstrated that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes. | The Trustee reviews their training needs on a regular basis. As noted above, Clare attended various training sessions throughout the year in order to maintain sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes. |
| Trustees must describe how, through the scheme year the trustees have demonstrated that their combined knowledge and understanding, together with available advice, enable them to properly exercise their functions. | The Trustee receives professional advice from Mercer and Sackers to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustee along with their own experience allows them to properly exercise their function as Trustee.<br><br>The Company covers the cost of the Trustee and its advisors who attend each Trustee meeting and are available to support the Trustee at any time during the year and answer any queries or concerns they may have. |

The Trustee will also continue to review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13 and any updates to the accompanying guidance.

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of their knowledge.

**This Chair Statement was Approved and Signed on 25.1.2023 by Clare James, Client Director of Zedra Governance Limited – Chair of the Trustee of the PIMCO Europe Limited DC Pension Plan**