

# Annual statement regarding governance of the DC Section of the Spirit Legacy Pension Scheme ('the Scheme')

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ('the Administration Regulations') require the Trustee to prepare an annual statement regarding governance which must be included in the annual Trustee's report and accounts. The governance requirements apply to all Defined Contribution (DC) pension arrangements and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 1 July 2024 to 30 June 2025 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. The default arrangement
2. Net investment returns
3. Member borne charges and transaction costs
  - i. Default arrangement
  - ii. Self-select funds
  - iii. Illustrations of the cumulative effect of these costs and charges
4. Processing of core financial transactions
5. Assessment of value for members
6. Trustee's knowledge and understanding

## **1. The Default Arrangement**

The Scheme is not used as a Qualifying Scheme for auto-enrolment purposes. The Trustee is responsible for the Scheme's investment governance which includes setting and monitoring the investment strategy for the Scheme's default arrangement. The default arrangement for members is the Drawdown Targeting Lifestyle Strategy.

The Drawdown Targeting Lifestyle Strategy is provided for members who join the Scheme and do not choose an investment option for their contributions. The Cash Targeting Lifestyle Strategy previously contained a small number of members' funds that were close to retirement where no active decision had been taken to invest in that option, therefore it was also considered a "default" arrangement for the purposes of legislation, however no members have been invested in this strategy during the Scheme year.

Details of the objectives and the Trustee's policies regarding the default arrangements can be found in a document called the Statement of Investment Principles (SIP). The latest SIP for the Scheme is attached to this statement and included in the Trustee Report and Accounts. The objective of the default arrangement (and the alternative Cash Targeting Lifestyle Strategy and Annuity Targeting Lifestyle Strategy) is to automatically move members from higher return, higher risk investments to lower risk, lower return investments as they near their retirement age. This is done with the aim of providing growth to members while they are further from retirement while helping to protect fund values as members get closer to retirement and investing in a mix of assets broadly appropriate to how members in each strategy may take their benefits when they retire.

## Investment strategy review

The default arrangement was formally reviewed during the period covered by this statement.

The review was completed on 10 March 2025. The review considered the suitability of the default arrangement and other fund options with reference to the membership demographics and how members access their benefits, as well as industry data and wider trends. This assessment was made by considering the current membership profile and member outcome modelling was completed. As a result of the review, and after taking advice from its investment adviser, the Trustee agreed to change the lifestyle strategies (including the default arrangement) by removing the allocation to the SL abrdn Macro Fixed Income Fund and replacing it with the SL Deposit & Treasury Fund. This was done for the following reasons:

- The SL abrdn Macro Fixed Income Fund was used within the de-risking period of all the lifestyle strategies, principally to protect capital whilst providing some growth. Whilst the fund had protected capital, it had underperformed its return target for a sustained period of time. Despite the manager making changes to the fund's strategy in 2023/24, performance did not improve significantly.
- The SL Deposit & Treasury Fund is a money market fund which has consistently performed in line with its benchmark and is expected to provide very high levels of capital protection. The SL Deposit & Treasury Fund also has a significantly lower member charge than the SL abrdn Macro Fixed Income Fund.

The Trustee also agreed to cease offering the SL abrdn Macro Fixed Income Fund as a self-select investment option.

The implementation of this change took place in May 2025.

The Trustee undertakes a formal review of the default arrangement every 3 years. The next formal review is due to take place by 10 March 2028.

## Performance Monitoring

The Trustee reviews the performance of the funds underlying the default arrangement against their aims and objectives on a quarterly basis.

The Trustee reviews that took place in the year concluded that the funds were performing broadly as expected, with the exception of the SL abrdn Macro Fixed Income Fund, which was replaced during the Scheme year as described above.

## Specified performance based fees

Where a fee is calculated by reference to the returns from investments held by the Scheme and is not calculated by reference to the value of the member's rights under the Scheme, the Trustee must state the amount of any such performance-based fees in relation to each default arrangement. The Trustee confirms that, over the Scheme year, no performance based fees were incurred by members in the default arrangement or any other investment.

## Default arrangement asset allocation

The Trustee is required to disclose full asset allocations of investments for each default arrangement. The table below shows the percentage of assets allocated in the default arrangement to specified asset classes over the year to 30 June 2025.

The asset allocations below include the change in fund structure during the year allowing for the switch to the SL Deposit & Treasury Fund from the SL abrdn Macro Fixed Income Fund.

## Default arrangement: Drawdown Targeting Lifestyle Strategy

Asset class	Average asset allocation over year to 30 June 2025 (%)			
	25 years old	45 years old	55 years old	Retirement Age (65)
<b>Cash</b>	<b>1.2%</b>	<b>1.2%</b>	<b>1.2%</b>	<b>8.4%</b>
<b>Bonds</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>57.0%</b>
<i>Corporate bonds</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>13.7%</i>
<i>Fixed interest government bonds</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>16.0%</i>
<i>Index-linked government bonds</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>26.9%</i>
<i>Other bonds</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.4%</i>
<b>Listed equities</b>	<b>98.8%</b>	<b>98.8%</b>	<b>98.8%</b>	<b>34.6%</b>
<i>UK equities</i>	<i>9.0%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>3.1%</i>
<i>Developed market equities (excluding UK)</i>	<i>89.7%</i>	<i>89.7%</i>	<i>89.7%</i>	<i>31.5%</i>
<i>Emerging-Market equities</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.0%</i>
<b>Other</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

Source: Investment Managers: Vanguard, abrdn and Aon calculations

## 2. Net Investment Returns

The Trustee is required to report net investment returns for each default arrangement and for each non-default fund which Scheme members were invested in during the Scheme year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges. The net investment returns to 30 June 2025 are shown in the tables below and have been prepared having regard to statutory guidance. It is important to note that past performance is not a guarantee of future performance.

The net returns for the Lifestyle Strategy Funds shown in tables (i), (ii) and (iii) below are based on a member having a Target Retirement Age of 65. The statutory guidance states net investment returns for lifestyle strategies must be shown for members aged 25, 45 and 55 at the start of the Scheme year. The Scheme's lifestyle strategies start de-risking from 10 years before retirement (from age 55 where the Target Retirement Age is 65), therefore the net returns for the lifestyle strategies and all self-select funds are the same at age 25, 45 and 55 for the 1 year or 5 year periods. We have shown net investment returns at age 55 (this covers the performance for the ages set out in the statutory guidance). Additionally, we have set out the performance for ages 60 and 65 (to show returns achieved for members closer to retirement).

The net returns below allow for the change the replacement of the SL abrdn Macro Fixed Income Fund with the SL Deposit & Treasury Fund during the year.

(i) **Default arrangement – Drawdown Targeting Lifestyle Strategy**

Age at the end of investment reporting period	Net return (% p.a.)	
	1 year	5 years
55 and under	7.6	12.1
60	4.9	4.4
65	3.9	2.5

Source: abrdn and Aon calculations

(ii) **Self-select – Cash Targeting Lifestyle Strategy**

Age at the end of investment reporting period	Net return (% p.a.)	
	1 year	5 years
55 and under	7.6	12.1
60	4.9	4.4
65	4.7	2.5

Source: abrdn and Aon calculations

(iii) **Self-select – Annuity Targeting Lifestyle Strategy**

Age at the end of investment reporting period	Net return (% p.a.)	
	1 year	5 years
55 and under	7.6	12.1
60	4.9	4.4
65	-1.4	-1.9

Source: abrdn and Aon calculations

(iv) **Self-select investment funds**

Fund name	Net returns (% p.a.)	
	1 year	5 years
SL Vanguard FTSE Developed World ex UK Pension Fund <sup>1</sup>	7.3	12.3
SL Vanguard FTSE UK All Share Index Pension Fund <sup>1</sup>	10.5	10.6
SL Vanguard Emerging Markets Stock Index Pension Fund	14.0	4.9
SL Vanguard UK Investment Grade Bond Index Pension Fund <sup>1</sup>	5.6	-1.0
SL Vanguard UK Inflation Linked Gilt Index Pension Fund <sup>1</sup>	-5.2	-9.3
SL abrdn Macro Fixed Income Fund <sup>1,2</sup>	4.7	1.1
Standard Life Deposit and Treasury Fund <sup>1,3</sup>	4.7	2.5

Source: abrdn

1 Funds also used in the Drawdown Targeting Lifestyle Strategy

2 Fund disinvested through the Scheme Year and removed from all lifestyle strategies

3 Fund added to Drawdown Targeting Lifestyle Strategy during the Scheme Year

### 3. Member Borne Charges and Transaction costs

The Trustee has set out the costs and charges that are incurred by members, rather than the employer, over the Scheme year in respect of each investment fund available to members. These comprise the Total Expense Ratio and transaction costs.

The Total Expense Ratio is an explicit charge and represents the costs associated with operating and managing an investment fund. Transaction costs are not explicit and are incurred when the fund managers buy and sell assets within the investment funds.

The fund managers calculate transaction costs on a quarterly basis at fund-level not scheme-level. The Trustee requested details of transaction costs for the period 1 July 2024 to 30 June 2025 from abrdn and Vanguard.

The charges and transaction costs have been supplied by abrdn and Vanguard.

#### (i) Default arrangement

##### Drawdown Targeting Lifestyle Strategy

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.12% p.a. to 0.23% p.a. and transaction costs ranged from 0.00% to 0.02% p.a. The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.12	0.14	0.16	0.18	0.20	0.21	0.22	0.22	0.22	0.22	0.23
Transaction costs % p.a.	0.00	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02
Total costs % p.a.	0.12	0.15	0.17	0.19	0.21	0.22	0.24	0.24	0.24	0.24	0.25

The charges paid by members invested in the above arrangement is within the 0.75% p.a. charge cap for schemes that are used for auto enrolling their employees.

#### (ii) Self-select – Cash Targeting Lifestyle Strategy

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.12% p.a. to 0.21% p.a. Transaction costs ranged between 0.00% p.a. and 0.01% p.a. The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.12	0.14	0.16	0.18	0.20	0.21	0.21	0.20	0.19	0.18	0.17
Transaction costs % p.a.	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00
Total costs % p.a.	0.12	0.15	0.17	0.19	0.21	0.22	0.22	0.21	0.20	0.18	0.17

#### (iii) Self-select – Annuity Targeting Lifestyle Strategy

In addition to the Drawdown Targeting Lifestyle Strategy and the Cash Targeting Lifestyle Strategy shown above, members also have the option to invest in the Annuity Targeting Lifestyle Strategy.

The actual costs that a member paid over the year depends on their term to retirement. The TER ranged from 0.12% p.a. to 0.21% p.a. Transaction costs ranged from 0.01% p.a. to 0.05% p.a.

The actual costs based on term to retirement during the year are shown in the table below:

Years to retirement	10+	9	8	7	6	5	4	3	2	1	0
TER % p.a.	0.12	0.14	0.16	0.18	0.20	0.21	0.20	0.18	0.17	0.15	0.13
Transaction costs % p.a.	0.00	0.01	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.04	0.05
Total costs % p.a.	0.12	0.15	0.17	0.19	0.21	0.22	0.22	0.21	0.21	0.19	0.18

#### (iv) Self-select investment funds

In addition to the lifestyle strategies shown above, members also have the option to invest in seven self-select funds.

The TERs and transaction costs for each of the individual funds available to members are shown in the following table:

Self-select Fund name	TER % p.a.	Transaction Costs % p.a.	Total Costs % p.a.
SL Vanguard FTSE Developed World ex UK Pension Fund <sup>1</sup>	0.12	0.00	0.12
SL Vanguard FTSE UK All Share Index Pension Fund <sup>1</sup>	0.12	0.05	0.17
SL Vanguard Emerging Markets Stock Index Pension Fund	0.27	0.10	0.37
SL Vanguard UK Investment Grade Bond Index Pension Fund <sup>1</sup>	0.12	0.02	0.14
SL Vanguard UK Inflation Linked Gilt Index Pension Fund <sup>1</sup>	0.12	0.07	0.19
SL abrdn Macro Fixed Income Fund <sup>1,2</sup>	0.54	0.00	0.54
Standard Life Deposit and Treasury Fund <sup>1,3</sup>	0.17	0.00	0.17

<sup>1</sup> Funds also used in the Drawdown Targeting Lifestyle Strategy

<sup>2</sup> Fund disinvested through the Scheme Year and removed from all lifestyle strategies

<sup>3</sup> Fund added to Drawdown Targeting Lifestyle Strategy during the Scheme Year

#### (v) Illustrations of the cumulative effect of costs and charges

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided an illustration of their cumulative effect on the value of typical Scheme members' savings over the period to their retirement.

The illustration has been prepared having regard to statutory guidance, selecting a suitable representative member and is based on a number of assumptions about the future which are set out below.

Members should be aware that such assumptions may not hold true, so the illustration does not promise what could happen in the future and fund values are not guaranteed. Furthermore,

because the illustration is based on a typical member of the Scheme, it is not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

The illustration is shown as a table. As the projected retirement savings are dependent on investment returns as well as the level of costs and charges, comparison figures with other investments have been included in the table. For comparison purposes, the projected retirement savings if the typical member were invested in the SL Vanguard FTSE Developed World ex UK Pension Fund (which has the lowest charge level) and the SL Vanguard UK Inflation Linked Gilt Index Pension Fund (which has the highest charge level of which members' funds are invested) are shown in the table.

All projected fund values are shown in today's terms so do not need to be reduced further for the effect of future expected inflation.

**Illustration:** is based on an existing deferred Scheme member who has 12 years to go until their retirement at age 65. The member is not contributing and has a starting fund value of £19,700.

Age	Drawdown Targeting Lifestyle Strategy (default)			SL Vanguard FTSE Developed World ex UK Pension Fund			SL Vanguard UK Inflation Linked Gilt Index Pension Fund		
	Before charges £	After charges £	Effect of charges £	Before charges £	After charges £	Effect of charges £	Before charges £	After charges £	Effect of charges £
53	19,700	19,700	0	19,700	19,700	0	19,700	19,700	0
55	21,100	21,050	50	21,070	21,020	50	21,470	21,410	60
60	24,490	24,270	220	24,920	24,700	220	26,610	26,360	250
65	27,440	27,000	440	29,470	29,040	430	32,990	32,460	530

**Members are encouraged to consider both the level of costs and charges and the expected return on investments (i.e. the risk profile of the strategy) when making investment decisions.**

#### Assumptions and data for illustrations:

The following assumptions have been made for the purposes of the above illustration:

- Annual salary growth and inflation are assumed to be 2.5% per annum
- The starting fund value used in the projections are representative of the average for the Scheme.
- The projected growth rates used are consistent with the growth rates providers use in members' annual benefit statements which are determined by the statutory guidance for producing money purchase illustrations and which are now based on the historic volatility of the fund not expected future returns. The projected annual returns on assets (gross of costs and charges) are:

Fund	Return (% p.a.)
SL Vanguard FTSE Developed World ex UK Pension Fund	6.0
SL Vanguard FTSE UK All Share Index Pension Fund	7.0
SL Vanguard UK Investment Grade Bond Index Pension Fund	4.0
SL Vanguard UK Inflation Linked Gilt Index Pension Fund	7.0
Standard Life Deposit and Treasury Fund	2.0

- The projections assume the lifestyle strategy is rebalanced annually across the different underlying funds associated with a members' term to retirement
- The transaction costs are based on an average of the previous 5 years' transaction costs, as per Statutory guidance.

#### **4. Processing of Core Financial Transactions**

Core financial transactions include the investment of contributions, transfer of member funds into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members/beneficiaries. The bulk of the core financial transactions are undertaken on behalf of the Trustee by the Scheme administrator, Aon, while the Company was responsible for ensuring that contributions are paid to the Scheme promptly, until the Scheme closed. The timing of such payments is monitored by the Trustee from quarterly administration reports submitted by Aon.

In order to determine how well the administration is performing, the Trustee has service level agreements (SLAs) in place with Aon. These SLAs detail a number of key administration processes to be performed and the target timescale within which each of these processes needs to be completed. There are SLAs in place for all core financial transactions.

The Trustee periodically reviews the key processes adopted by the administrator and their output in order to minimise the risks of inaccurate or late payment of core financial transactions. Key processes include:

- A full member and Scheme reconciliation being undertaken annually as part of the annual preparation of the Trustee Report & Accounts.
- Provision of quarterly administration reports – enabling the Trustee to check core financial transactions and review processes relative to any member complaints made.
- Monthly contribution checks and daily reconciliation of the Trustee's bank account.
- Checks for all investment and banking transactions prior to processing.
- Straight-through processing where possible, therefore avoiding the need for manual intervention and, in turn, significantly reducing the risk of error.
- Annual data reviews.
- Documentation and operation in line with quality assurance policies and procedures.
- Operation in line with the business continuity plan and confirmation that the administrator has prioritised core financial transactions during this period.

Controls around administration and the processing of transactions are being documented in the Scheme risk register so that they will be subject to regular review. The Scheme audit also reviews a sample of calculations carried out during the Scheme year.

The Trustee is satisfied that, over the period:

- The administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA.
- There have been no material administration errors in relation to processing core financial transactions.

All core financial transactions have been processed promptly and accurately during the Scheme year.

#### **5. Assessment of Value for Members**

There is no legal definition of "good value" or the process of determining this for Scheme members. Therefore, working in conjunction with its advisers, Aon, the Trustee has developed a cost-benefit analysis framework in order to make an assessment as to whether members receive good value from the Scheme relative to the costs and charges they pay.

## Costs

The costs have been identified as TERs and transaction costs and are set out in section 3 of this statement. Benchmarking relative to other pension arrangements or industry best practice guidelines has been undertaken.

Based on the profile of the Scheme's DC arrangements, we believe that the explicit charges are generally competitive when compared to current market rates on a like-for-like basis.

## Benefits

The Trustee has considered the benefits of membership under the following four categories:

### Scheme governance

The Scheme is governed by an experienced group of Trustee Directors including a professional, independent Chair. The Board regularly reviews information about the performance of Scheme investments and the DC members and decisions being made, amongst other information. This helps the Trustee to determine an appropriate strategy to support members and make improvements.

### Investments

The Scheme provides members with an appropriate range of lifestyle and self-select fund options. The investment strategy and performance are regularly monitored and reviewed by the Trustee. The investment funds available have been designed, following advice from the Trustee's investment advisers, Aon, with the specific needs of members in mind.

### Administration

The Trustee regularly monitors the Scheme administration and, over the period, found that the necessary administration standards were being achieved.

### Member support

The Scheme provides members with regular, clear communications regarding the choices open to them, as well as annual benefit statements and 'at retirement' communications. The Trustee will continue to review and improve as necessary.

## Conclusion

The Trustee's assessment concluded that the charges and transaction costs borne by Scheme members represents good value for members relative to the benefits of Scheme membership.

## 6. Trustee's Knowledge and Understanding

The comments in this section relate to the Scheme as a whole and not solely the DC section.

The Trustee has processes and procedures in place to meet the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out in their Code of Practice No 7); some of which are identified below:

- A structured training programme for newly appointed Trustee Directors including completion of the Pension Regulator's Trustees toolkit, which is an online learning programme.
- Assessing training needs and identifying gaps in knowledge through regular self-assessments.
- Undergoing regular training for the year, this included investment strategy training, training on pensioner buy-ins and training on funding.
- Maintaining training logs for each individual Trustee Director which supports the above.

The Trustee has engaged with its professional advisers regularly throughout the year to ensure that it exercises its functions properly and take professional advice where needed. In exercising its functions, this has required knowledge of key Scheme documents such as the Trust Deed &

Rules, Trustee Report & Accounts and Statement of Investment Principles. A few of the areas that support this statement are set out below:

- Preparation for the production of an Implementation statement.
- Arrange preparation and audit of the annual Trustee's Report and Accounts.
- The law relating to pensions and trusts through updating the risk register.
- Review of quarterly administration reports to monitor service delivery against agreed service levels standards and assessing the member experience.
- Reviewing investment reports to assess fund performance against benchmarks, and funds against overall Scheme aim and objectives, as set out in the statement of Investment Principles.
- Maintaining a regime for proper governance – reviewing and updating the Trustee's governance framework for the DC Section of the Scheme and working on the Scheme's Own Risk Assessment to comply with the Pension Regulators new General Code.
- Implementing the investment strategy changes following completion of the DC investment strategy review in March 2025.

The Trustee has held 5 meetings so far across the Scheme year including its Sub-Committee meetings.

The Trustee board is currently made up of five Trustee Directors with diverse skill sets. During the Scheme year, two Trustee Directors stepped down and two Trustee Directors were appointed. The Chair of the Trustee is an independent professional trustee and there are three other Company appointed Trustee Directors and two member nominated Trustee Directors. The composition of the Trustee board aims to demonstrate diversification of skills and breadth and depth of pension knowledge. New Trustee Directors receive comprehensive introductory training which they are required to supplement with the Pensions Regulator's Trustee Toolkit (within 6 months of appointment).

The Trustee Directors consider that they meet the Pension Regulator's Trustee Knowledge and Understanding requirements and are confident that their combined knowledge and understanding, together with the support of their advisers, enables them to properly exercise their functions as the Trustee of the Scheme.

The Trustee publishes this statement on a publicly accessible website (<https://www.spiritpensioninfo.co.uk/>) and confirms the location to members in their annual benefits statements.

Signed on behalf of the Trustee of the Spirit (Legacy) Pension Scheme.

Iain Urquhart, Chair of Trustee

Date