

Chair's Statement

Chubb Security Pension Fund ("the Fund")

Chair's statement regarding the governance of defined contribution arrangements

Fund year - 1 April 2021 to 31 March 2022

1. Introduction

- 1.1. This statement has been prepared by the Trustee of the Chubb Security Pension Fund ("the Trustee") and reports on how the Trustee complies with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015 ("the Regulations"), and subsequently amended by The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.
- 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 Fund year 1 April 2021 to 31 March 2022. It may not, therefore, include any subsequent changes to the Fund since 31 March 2022.
- 1.4. As required by the Regulations, the Trustee will publish this Statement on a publicly accessible website. The web address for the website will be <https://www.chubbfiresecurity.com/en/uk/about/pension-scheme/>.

2. The Fund's DC benefits

- 2.1. The Fund's DC benefits comprise of the following:
 - 2.1.1. DC benefits for some members who had short periods of membership after 5 April 1997 and who received a refund of part of their contributions. The DC benefits represent retained 'Protected Rights', a result of the method used by the Fund from 6 April 1997 to 'contract out' of the State Pension Scheme. These Protected remained invested within the Fund's defined benefit (DB) investment strategy.
 - 2.1.2. DC 'underpin' accounts apply for some members, under which they will receive the greater of a DB entitlement and the comparable pension that can be secured by the DC underpin account. The Trustee has been informed by the Plan's administrator, Buck, that during the Plan year, comparable pensions that could be secured by DC underpin accounts were not expected to be greater. Benefits for these members are therefore expected to be DB in nature and are not considered further in this Statement.
 - 2.1.3. The Fund held an Additional Voluntary Contribution (AVC) policy with one provider during the reporting period.

3. The Fund's investment arrangements

- 3.1. The Fund is not used as a qualifying scheme by any sponsoring employer to meet its auto-enrolment duties on a DC basis.
- 3.2. The Fund has no default investment arrangements for the purposes of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Scheme Administration Regulations"). As there is no default arrangement, the requirement for a Statement of Investment Principles (SIP) prepared in accordance with regulation 2A of the Occupational Pension Scheme (Investment) Regulations 2005 does not apply.

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Overview of the Fund's investment arrangements

- 3.3. Up until the 1 March 2022, Protected Rights funds were invested in the Chubb Common Investment Fund ("the CCIF") in line with the Fund's DB investment strategy. The CCIF operated as a unitised arrangement. Units within the CCIF were valued using the bid market value of assets on a monthly basis. Following a decision by the Trustee, the Plan's investments (including all the units the Fund held) were withdrawn from the CCIF as part of a wider change to the Fund's DB investment strategy. From 1 March 2022 all Protected Rights benefits were invested in line with the Fund's new DB investment strategy ("the Fund's Portfolio") which mirrors its previous holdings within the CCIF.

4. Core financial transactions

- 4.1. The governance standard requires the Trustee to ensure that 'core financial transactions' are processed promptly and accurately. For the Fund, these comprise:
- 4.1.1. Transfer payments out of the Fund
 - 4.1.2. Retirement benefit payments out of the Fund
- 4.2. As Protected Rights funds are invested in line with the Fund's DB investments, there are no investment switches available to members outside those made by the Trustees of the CCIF (prior to 1 March 2022) and the Fund's Trustee (post 1 March 2022). Therefore, only transfers/payments out of the Fund are relevant in terms of core financial transactions.
- 4.3. Transactions in respect of the Protected Rights funds are undertaken on the Trustee's behalf by the administrator of the Fund, Buck Consultants (Administration & Investment) Limited ("Buck"), and prior to 1 March 2022, the Trustees of the CCIF.

Controls and monitoring arrangements

- 4.4. The controls in place in relation to ensuring the promptness and accuracy of core financial transactions are:
- 4.4.1. The Trustee has a Service Level Agreement (SLA) in place with Buck, both in terms of timeliness and accuracy, and reporting of performance against those service levels.
 - 4.4.2. The SLA sets out the timeline standards expected for each step of the Fund's main administration tasks, including core financial transactions. Buck aims to process at least 95% of core financial transactions within the SLAs set out below:

| Core financial transaction | Service Level Agreement (days) |
|-----------------------------|--------------------------------|
| Transfers out of the Fund | 10 |
| Retirement benefit payments | 7 |

- 4.5. In order to monitor Buck's performance against agreed SLAs, the Trustee receives quarterly administration reports from Buck. These reports include cash flow monitoring, summaries of member transactions, reporting of service performance against the SLAs and identify any issues arising regarding administration timeliness and/or accuracy. Reports are considered at each Trustee Meeting.
- 4.6. The controls in place in relation to the accuracy of core financial transactions are:
- 4.6.1. Internal checking procedures are applied to all processes.
 - 4.6.2. Monitoring of accuracy is undertaken via the auditing of the Fund's annual report and accounts and periodic auditing of the Fund's membership data. In addition, Buck's internal controls are subject to internal controls procedures.

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- 4.7. The Trustee has reviewed the above processes and controls implemented by Buck and consider these to be suitably designed to achieve its objectives.

Issues occurring during the Fund Year

- 4.8. As highlighted in the Trustee's statement covering the previous Fund year, the Trustee was formally made aware on 6 August 2020 that Buck had been misreporting its administration performance against agreed SLAs since late 2018/early 2019. Quarterly reports presented at Trustee meetings generally showed performance ranging from 95% to 100% however, in reality the average SLA during the period was around 80%. The Trustee subsequently submitted Breaches of Law reports to TPR on 27 August 2020, with further updates provided on 28 September 2020 and 27 November 2020 at TPR's request. The Trustee continued to liaise with TPR as to the recovery process throughout the reporting period. Overall, the Trustee had been notified of 79 breaches by Buck for the Fund as a whole.
- 4.9. To resolve, the service issues relating to the Fund's administration and the backlog of outstanding tasks accrued, the Trustee arranged weekly meetings with Buck to monitor progress and provide support in eliminating the backlog of work and in getting the administration performance up to agreed levels by the end of October 2020. The Fund's backlog was cleared ahead of this deadline in the week commencing 19 October 2020.
- 4.10. In response to the issues noted above, the Trustee received compensation from Buck for the serious breaches of its performance levels. However, the Trustee continues to monitor Buck's performance against SLAs at Trustee meetings and Administration Sub-Committee meetings.
- 4.11. As a result of this oversight, during the Fund year there was an improvement into Buck's performance against SLAs, with levels reaching normality, although in Q4 2021 these levels once again dipped.

Fund AVCs

- 4.12. The AVC policy was provided by Aegon during the reporting period. The Trustee has delegated the administrative oversight of the AVC arrangements to Buck. Buck were unable to provide a valuation of the Aegon policy at 31 March 2022 although all members with AVCs had received a benefit statement in accordance with the disclosure regulations. As a result, a prior year value, adjusted for withdrawals, was adopted for accounting purposes. However, the Trustee will be obtaining a current valuation from Aegon for their records going forward.
- 4.13. There are no formal SLAs in place with the AVC providers, however Buck reports to the Trustee as part of the Trustee's meetings with any specific issues relating to the administration of the AVC policy.

Trustee view of core financial transactions

- 4.14. The Trustee believes that these measures enable it to effectively monitor the promptness and accuracy of core financial transactions of the Fund's administration for its DC and AVC arrangements. Whilst acknowledging the issues experienced, due to the very low number of Protected Rights members during the Fund year that were DC in nature, the Trustee is confident that all related core financial transactions over the reporting period have been processed promptly and correctly.

5. 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).

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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. All administration, communication and other costs associated with running the Fund (other than administering the AVC arrangements) are met by the sponsoring employer.
- 5.3. The Trustee approached the CCIF's and Fund Portfolio's investment managers to obtain details of the member-borne charges and transaction costs incurred over the Fund year. Details are provided below.

Charges in relation to Fund Portfolio

- 5.4. The TER for the Fund Portfolio for the Fund year was 0.170% p.a.
- 5.5. The additional transaction costs incurred within the Fund Portfolio over the Fund year was 0.073% p.a.

Charges in relation to AVCs

- 5.6. The following tables provide details of the charges and transaction costs for each of the investment options provided through each AVC arrangement over the Fund year.

Aegon

- 5.7. Members that hold AVC benefits with Aegon are invested in one, or a combination, of the funds detailed in the table below alongside details of the charges and transaction costs quoted by Aegon for these funds:

| Investment option | TER (p.a.) | Transaction costs (year to 31 March 2022) | Average transaction costs (p.a.) |
|---|------------|---|----------------------------------|
| Aegon BlackRock LifePath Capital 2034-2036 (BLK) | 0.41% | 0.0337% | 0.0438%* |
| Aegon BlackRock LifePath Capital 2031-2033 (BLK) | 0.41% | 0.0300% | 0.0393%* |
| Aegon BlackRock LifePath Capital 2028-2030 (BLK) | 0.41% | 0.0393% | 0.0466%* |
| Aegon BlackRock LifePath Capital 2025-2027 (BLK) | 0.41% | 0.0294% | 0.0307%* |
| Aegon BlackRock LifePath Capital 2022-2024 (BLK) | 0.41% | 0.0233% | 0.0230%* |
| Aegon BlackRock Cash (BLK) | 0.33% | 0.0157% | 0.0138%* |
| Aegon BlackRock Long Gilt (BLK) | 0.30% | -0.0382%** | -0.0300%** |
| Aegon BlackRock Index-Linked Gilt (BLK) | 0.30% | 0.0048% | -0.0035%** |
| Aegon BlackRock American Growth (BLK) | 0.90% | 0.1040% | 0.1617% |
| Aegon BlackRock 50/50 Global Equity Index Tracker (BLK) | 0.67% | 0.0854% | 0.1191% |
| Aegon BlackRock Balanced Growth (BLK) | 0.76% | 0.1119% | 0.1443% |
| Aegon BlackRock 50/50 Global Growth (BLK) | 0.75% | 0.1357% | 0.1793% |
| Aegon BlackRock Strategic Accumulation (BLK) | 0.75% | 0.1299% | 0.1760% |

*These funds only became available within the Aegon AVC arrangement following the transfer of Utmost AVCs in July 2020. As a result, we only report average transactions costs over a two-year period as opposed to a three-year period.

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

Impact of costs and charges

- 5.8. 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 the appendix.

Value for members

The Trustee is required to assess annually the extent to which the charges and transaction costs borne by members represent good value. These member borne deductions cover the cost of providing the investment management services for the Protected Rights funds and also the administration services and communications for the AVC provider.

- 5.9. The CCIF had its own Board of Trustees which was supported by Barnett Waddingham as Investment Consultant and subject to Investment Monitoring and Operational Governance Reports. From 1 March 2022 the Trustee was supported in the same manner in relation to the Fund Portfolio.
- 5.10. The CCIF regularly reported to the Trustee on the performance of the fund. Barnett Waddingham now report directly to the Trustee on the performance of the Fund Portfolio.
- 5.11. The Trustee was satisfied with the performance of both the CCIF and Fund Portfolio during the Fund year. Having considered the charges the members bear, the Trustee believes that this represents good value for its members, although it notes that administrative difficulties continued somewhat during the Fund year.

6 Disclosure of net investment returns

- 6.1. The Trustee is required to disclose returns, net of charges and transaction costs, for each investment strategy and fund that members are able, or were previously able, to select and in which members' assets were invested during the Fund Year. As all Fund benefits (except AVCs) are invested in line with the Fund's DB strategy, noting the changes under 3.3, the Trustee has provided a blended return of the Fund's assets held under the CCIF up until 1 March 2022 and the Plan's Portfolio for the remainder of the Fund year. When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

| Investment fund | Annualised Return – 1 year to 31 March 2022 | Annualised Return – 5 years to 31 March 2022 |
|-----------------|---|--|
| Fund Portfolio | -2.7% | 5.3% |

7. Trustee knowledge and understanding

The Trustee Board

- 7.1. The Trustee Board comprises seven trustee directors, 3 of whom are nominated by the members.
- 7.2. One of the appointed trustee directors, Brian McGowan, is the chair.

Trustee knowledge and understanding requirements

- 7.3. Trustee directors are required to be conversant with the Fund's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension plans and investment of Fund assets and other matters to enable them to exercise their functions

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as trustee directors properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07. The comments in this section relate to the Trustee as a body in dealing with the whole Fund and are not restricted to DC benefits.

Approach

- 7.4. The Trustee has put in place arrangements for ensuring that trustee directors take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs to identify knowledge gaps and training needs in relation to emerging legislation, Fund changes and upcoming matters in the Fund's business plan.
- 7.5. The Secretary to the Trustee reviews the self-assessments and arranges for training to be made available to individual trustee directors or to the full Trustee board as appropriate.
- 7.6. All of the existing trustee directors have completed the Pension Regulator's Trustee Toolkit and new trustee directors are required to complete this within six months of taking up office. During the Fund year three new trustee directors were appointed, two of whom were nominated by members. The new trustee directors are in the process of completing the Pension Regulator's Trustee Toolkit.
- 7.7. In addition, the Trustee received advice from professional advisers as and when required, for example on consultancy, investment and legal matters. The professional advisers are engaged to pro-actively alert the trustee directors on relevant changes to pension and trust law. Professional advisers also provide support in relation to understanding and reviewing the Fund's documents, attending Trustee meetings and often in the delivery of training at these meetings. The relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers.
- 7.8. The Trustee aims to remain conversant with the Fund's Trust Deed & Rules and the following Trust documents and policies, having reviewed them in the Fund year:
 - 7.8.1. Statement of Investment Principles (SIP)
 - 7.8.2. General Data Protection Regulation policies and procedures
 - 7.8.3. Member Nominated Trustee selection process
 - 7.8.4. Terms of Reference for each of the Administration, Legislative Compliance and Pensioner Buy-in & Data Cleanse Sub-Committees
 - 7.8.5. Conflicts of Interest Policy

Activities during the Fund year

- 7.9. The Trustee received the following training from their professional advisers and service providers during the Fund year:
 - 7.9.1. Cyber Security
 - 7.9.2. TPR's DB Code of Practice
 - 7.9.3. Buck's Data Journey Plan
- 7.10. During the period covered by this statement, the Trustee undertook a review and received professional advice on the following aspects of DC Fund governance:
 - 7.10.1. The withdrawal from the CCIF and setup of the Fund Portfolio
 - 7.10.2. Fund De-risking Strategy
 - 7.10.3. Buck's operational review of its administration services and subsequent recovery plan
 - 7.10.4. Buck's Cyber Security controls

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7.10.5. The calculation that determines the benefits payable for DB members with a DC Underpin

Assessment

7.11. The Trustee considers 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:

- 7.11.1. The Trustee is able to challenge and question advisers, service providers and other parties effectively
- 7.11.2. The Trustee's decisions are made in accordance with the Fund rules and in line with trust law duties
- 7.11.3. The Trustee's decisions are not compromised by such things as conflicts or hospitality arrangements

This Chair's statement regarding the governance of defined contribution arrangements was approved by the Trustee and signed on its behalf by:

.....
Brian McGowan, Chair of the Trustee

.....
Date

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Appendix – Illustrations on the impact of cost and charges

A1. To demonstrate the impact of member-borne charges and transaction costs on the value of members' pension savings, the Trustee has produced illustrations in accordance with statutory guidance. These show the impact of charges and transaction costs for representative cross-sections of the Fund membership. For the illustration, the savings pot has been projected twice; firstly to allow for the assumed investment return gross of the costs and charges of the fund the member is invested in and then again, but adjusted for the cumulative effect of the costs and charges of the fund.

Parameters used for the illustrations

A2. Whilst no members held DC assets during the Fund year, to determine the parameters used in the illustration, the Trustee has analysed the membership from the previous Fund year and ensured that the illustration takes into account the following:

- A2.1. Protected Rights funds are fully invested in the Fund Portfolio
- A2.2. Using the median pot size of those who hold Protected Rights funds as a representative pot size
- A2.3. The approximate duration that the youngest member using the Fund Portfolio would take to reach NRA.

A3. The Trustee has determined not to include any illustrations for AVCs as it would be disproportionately burdensome given the amounts of money held in each of the individual AVC funds:

The Fund Portfolio

A4. All Protected Rights funds are invested in the Fund Portfolio.

| Years of membership | Age: 55 Starting pot size £1,500 | |
|---------------------|-------------------------------------|--------|
| | £1,500 | £1,500 |
| 0 | £1,500 | £1,500 |
| 1 | £1,491 | £1,488 |
| 3 | £1,474 | £1,463 |
| 5 | £1,457 | £1,439 |
| 10 | £1,414 | £1,381 |

A5. Notes to costs and charges illustrative example:

A5.1. Note on how to read this table: If a Protected Rights member had £1,500 invested in this option on 31 March 2022, when they came to retire in 10 years, the savings pot could reduce to £1,414 in today's terms if no charges are applied or to £1,381 in today's terms with charges applied.

- A5.2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. It is for this reason some funds show negative real growth.
- A5.3. Inflation is assumed to be 2.5% each year
- A5.4. No further contributions are assumed to be paid
- A5.6. Values shown are estimates and are not guaranteed
- A5.7. Charges for the Fund Portfolio used in the illustration are those outlined in this statement
- A5.8. The projected growth rates for the Fund Portfolio is 1.90% p.a. which is in line with those produced for the Fund's 2021 Statutory Money Purchase Illustrations (SMPI)
- A5.9. The statutory guidance requires trustees to use an average of the last five years' transaction costs (insofar as they are able) when producing the illustrations. As we have data for the last year only, the figures are based on a one-year average.