

Governance Statement for The Arconic Britain Pension Scheme

Introduction

This statement has been prepared by the Trustee of the Arconic Britain Pension Scheme (“the Trustee”) in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations (“the Administration Regulations”) 1996 (as amended). It describes how the Trustee has met the statutory governance standards in relation to:

- The default arrangements for the Scheme’s DC benefit provision;
- Requirements for processing core financial transactions;
- Assessment of charges and transaction costs, including an illustration of the impact of costs;
- Value for members; and
- The requirement for trustee knowledge and understanding.

This statement covers the period of 6 April 2019 to 5 April 2020, the 2019/20 Scheme year, (“the Scheme Year”), and is the fifth such statement prepared by the Trustee.

This statement has been made available on a publicly accessible website: www.arconic-pensions.co.uk/

1 Default arrangement(s)

The Scheme’s Defined Contribution (“DC”) benefits comprise the Deferred Profit Sharing (“DPS”) account and Additional Voluntary Contributions (“AVCs”). The DPS account has not received contributions since 6 April 2005 and remains closed to new contributions. As such, there is no default arrangement for DC benefits in the Arconic Britain Pension Scheme.

However, the Trustee has considered the investment strategy for the DPS account carefully, in order to secure the best outcomes for members, and has adopted the following lifestyle approach:

- Invest 100% in the Legal & General Investment Management (“LGIM”) Diversified Fund until the age of 55;
- Gradually switch investments from the LGIM Diversified Fund to the LGIM Cash Fund during the 10 year switching period to age 65 (with switches occurring on a quarterly basis);
- Invest 100% in the LGIM Cash Fund at age 65

This investment approach reflects the administrative practice that, upon retirement, the DPS account is invariably used in full to provide some or all of the member’s pension commencement lump sum.

1.1 Statement of investment principles

Appended to this statement is a copy of the Scheme’s latest Statement of Investment Principles, which governs decisions about investment for the purposes of the default arrangement(s), and is prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the “Statement of Investment Principles”). It was last updated in September 2019 to incorporate the Trustee’s views on responsible investment and environmental, social and governance factors.

1.2 Review

In August 2014 the Trustee initiated a detailed review of the Scheme’s operating model for the DC benefits held within the Scheme. Following this review it was agreed to reduce the number of providers, reduce the number of investment funds and to utilise new investment funds.

The key objectives of the review and the resulting changes were to:

- Consider whether the existing structure represented value for money for members.
- Manage the cost to the Scheme of servicing the DC arrangements.
- Harmonise and, where possible, reduce the member borne administration and investment management charges.
- Set any default investment strategy in light of administrative practice.
- Consolidate investment options where possible.
- Where possible utilise more modern investment philosophies e.g. using greater diversification to manage investment volatility.

During the review process, the Trustee sought appropriate pensions and investment advice and decided to implement a number of changes during the second half of 2015. The Trustee is comfortable that the resulting member borne charges are competitive and represent good value for members.

Following this exercise the Trustee acknowledged that there remains a residual balance (in respect of legacy AVCs), held with a number of providers, in their “With-profits” funds.

Governance Statement for The Arconic Britain Pension Scheme

The Trustee reviews the performance of the DPS account quarterly through investment monitoring reports prepared by their advisors, Isio.

A further detailed review of the DPS account's investment strategy was scheduled to be undertaken in 2019/20. However, earlier this year, the principal employer of the Scheme announced a number of changes in respect of the Scheme. This resulted in all members of the Scheme being transferred to alternative arrangements and the Scheme being terminated and commencing winding-up in June 2020. A detailed review of the DPS account was therefore not completed during the Scheme Year.

2 Requirements for processing core financial transactions

The primary scheme administration function is undertaken by Isio Group Limited ("Isio"). The Trustee regularly monitors core financial transactions of the Scheme via the Scheme administrator's administration reports. The Trustee considers core financial transactions to include the payment and investment of contributions, fund switches, unit reconciliations, transfers in and out of the Scheme and other payments. The control environment of Isio's pension administration business is subject to an annual independent review by auditor, Grant Thornton. Their findings are summarised in an annual AAF 01/06 Report. No material areas of concern have been identified.

A service level agreement with Isio is in place to facilitate the timely processing of all administration activities including core financial transactions. Over the year, around 95% of all DC related activities have been completed within the target timescales. Service provision during the year was adversely impacted by a number of Company led initiatives which were undertaken concurrently and stretched the capacity of the administration team. Isio also undertake a reconciliation of members' accounts on a monthly basis to ensure the total investment units held with the investment manager aligns with the total units held on the administration database.

There have been no member complaints relating to the DC section of the Scheme over the year.

The Trustee's annual report and financial statements (including financial transactions) are independently audited by the Scheme auditor, Geoghegans chartered accountants, annually. No material areas of concern have been identified.

Based upon the above, the Trustee is satisfied that the Scheme's core DC related financial transactions have been processed promptly and accurately during 6 April 2019 to 5 April 2020.

3 Assessment of member-borne charges and transaction costs

The Trustee has established what proportion of the Scheme's costs represent transaction costs during the Scheme Year by asking questions of its investment managers and third party administrators via its advisors, Isio.

3.1 Level of member-borne charges and transaction costs

The Trustee uses the 'charge controls' that apply to default arrangements of occupational pension schemes as a guideline for whether the Scheme's default arrangement is in line with best market practice (i.e. member borne charges must be lower than the cap of 0.75% pa). Over the period, the default arrangement has attracted charges significantly below the cap, and the Trustee is satisfied that these charges are appropriate and in line with other trust-based occupational pension schemes of similar size.

With the exception of AVCs held in the legacy "With-profits" funds (as noted in section 1.2 above), AVCs and the DPS account are invested in the default investment arrangement, managed by LGIM. The member borne charges associated with these two investment funds are shown in the table below.

Fund	Total Expense Ratio	Transaction Costs	Total charge
LGIM Diversified Fund	0.300% p.a.	0.04% pa	0.340% pa
LGIM Cash Fund	0.125% p.a.	0.00% pa	0.125% pa

Governance Statement for The Arconic Britain Pension Scheme

3.2 Illustration of the impact of costs and charges

Following the Department for Work and Pensions (DWP) consultation on new measures to improve the disclosure of costs, charges and investments in occupational DC schemes, the Trustee has illustrated the impact of such costs on a representative member's cumulative fund value to retirement.

The Financial Conduct Authority (FCA) recently published a consultation regarding the disclosure of implicit costs. The consultation brought clarity to how pension scheme trustees are to treat transaction costs, where anti-dilution charges cause aggregate transaction costs to result in a negative figure, effectively uplifting fund values. The Trustee has incorporated the FCA's response into the projections shown below, insofar that negative transaction costs are assumed to be 0%.

The Pensions Regulator allows trustees to exercise their discretion in selecting example members. The Trustee has reviewed the Scheme membership and elected to illustrate a typical, non-contributing member of the arrangement, projected over the longest duration to retirement for members in the Scheme. The projections have been adjusted for future inflation so are shown in today's price terms.

The typical member is assumed to have:

- A starting fund value of £20,000;
- A starting age of 43;
- No further contributions are paid;
- A retirement age of 65; and
- Invested in the default lifestyle strategy. This gradually moves from 100% allocation to the L&G Diversified Fund to 100% allocation to the L&G Cash Fund over the 10 years to age 65.

The Trustee has elected not to show comparative funds on the basis that members are only able to invest in the default investment arrangement. Consequently, there is no requirement to show the projections for the funds with the highest and lowest charges and the funds with the highest and lowest expected returns.

	Projected Pension Pot	
	Default investment arrangement	
Term to retirement date	Before charges (£)	After all Charges (£)
1	£20,390	£20,322
3	£21,194	£20,982
5	£22,029	£21,664
10	£24,264	£23,466
15	£26,055	£24,811
20	£25,249	£23,790
21	£24,766	£23,300
22	£24,187	£22,726

The projected pot values decrease as the member approaches retirement date due to the lifestyle strategy and the increased allocation to the L&G Cash Fund. This is because the L&G Cash Fund has a negative assumed investment return after allowing for charges and future inflation.

Assumptions:

1. Inflation is assumed to be 2.5% p.a.
2. No further contributions are assumed to be made
3. Rebalancing is assumed to occur annually
4. Return assumptions for funds used in the lifestyle are shown below:

Fund Name	Nominal Return (% p.a.)
L&G Diversified Fund	4.50
L&G Cash Fund	0.10

4 Value for member assessment

In accordance with regulation 25(1) (b) of the Administration Regulations, the Trustee has considered the extent to which charges and transaction costs set out in 3.1 and 3.2 above represent good value for members. The Trustee is comfortable that members receive value for money from the Scheme because:

Governance Statement for The Arconic Britain Pension Scheme

Investment

- The Trustee has designed a default investment arrangement of high quality that targets the form in which the majority of members are likely to take their benefits, i.e. as a cash lump sum to fund their Pension Commencement Lump Sum

Administration & benefits

- The Trustee believes that Isio offers a high quality member experience that is likely to be valued by members.
- There is no explicit cost levied on members for pension administration services.
- Sufficient at-retirement support is provided by Isio such that members will be supported adequately in the lead up to retirement.

Engagement and member communication

- The Trustee communicates annually with all members through the Scheme Newsletter. The Newsletter summarises the financial position of the Scheme and alerts members of pension scams and other hot topics.
- A Scheme website is available with information relating to the Scheme

In accordance with the Pensions Regulator's current DC Code of Practice and with relevant legislation available at the time of this statement, the Trustee concluded that the Scheme's overall benefits and options represent good value for money.

5 Trustee knowledge and understanding ("TKU")

During the Scheme Year, the Trustee, ABPS (Trustees) Ltd, was replaced with a sole professional trustee in Ross Corporate Services Ltd, which brought a higher level of professional knowledge and experience to the Scheme. The Trustee has met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for trustee knowledge and understanding). The Trustee's approach to meeting the TKU requirements included:

- Prior to the move to a sole professional trustee, the Trustee generally had three Board meetings, three governance sub-committee and three investment sub-committee meetings a year, with relevant expert advisers in attendance. During these meetings, the Trustee Directors received updates on current pension and investment related issues. In addition, the Trustee received formal bespoke training, at least three times a year.
- Following the appointment of Ross Corporate Services Ltd on 24th May 2019 as sole professional trustee, the Trustee Directors of the Trustee were already familiar and had a working knowledge of the trust deed and rules, the current SIP and all documents setting out the Trustee's current policies, owing to their prior involvement with the Scheme as an independent trustee director.
- The Trustee Directors of Ross Corporate Services Ltd have extensive experience of managing pension schemes and have obtained qualifications provided by the Association of Professional Pension Trustees (APPT) or Pensions Management Institute (PMI) trustee accreditation programmes.
- The Trustee received training on Environmental, Social and Governance factors in considering the Scheme's investment strategy. Additionally, the Trustee has received training on Investment duties and the Statement of Investment Principles during the year.
- The Trustee received additional training in relation to General Data Protection Regulation during the year.

The collective knowledge and experience of the Trustee Directors, together with the advice and regular education sessions received across the entire client portfolio, enables them to properly exercise their duties as Trustee Directors of the Scheme. Considering the standards required of professional trustees, as well as the additional training the Trustee has undertaken over the year, the requirement regarding Trustee knowledge and understanding has been met.

Steven Ross, Chairman of Trustee
2 November 2020