

# Chair's Annual Statement

## Aeromet International PLC Retirement Benefits Scheme ("the Scheme") Year end 5 April 2023

### Introduction

Governance requirements apply to defined contribution pension arrangements such as the Aeromet International PLC Retirement Benefits Scheme (the Scheme), to help members achieve a good outcome from their pension savings. The Trustee of the Scheme is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to:

- the funds that members can choose to invest in (this means the default arrangement and other funds members can select or have assets in);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- trustee knowledge and understanding.

This statement covers the period from 6 April 2022 to 5 April 2023. The Trustee continues to be committed to high governance standards and has regular meetings throughout the Scheme year at which the controls and processes in place in connection with the Scheme's investments and administration are monitored. Additional meetings can be scheduled as matters arise from time to time.

The Scheme is no longer used by the Company (Aeromet International Limited) to comply with the automatic enrolment regulations. A separate group personal pension scheme is used for that purpose.

I welcome this opportunity to explain what the Trustee does to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact us using the following contact details:

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# Chair's Annual Statement (continued)

## 1. Default investment strategy

Following the Scheme's closure in 2006, no further contributions have been paid to the Scheme. Therefore, it is not used as a Qualifying Scheme for auto-enrolment and consequently does not need to have a default arrangement as defined by legislation. The Trustee is not, therefore, required to provide a statement on the default investment strategy, or to provide details of any review of the default strategy as part of this Statement. However, the Trustee has decided to voluntarily include these details to provide members with some information, as set out below.

### Setting an appropriate investment arrangement

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 investment strategy is provided for members of the Scheme who do not choose one of the other options for the investment of their retirement savings.

The default strategy is fixed under the policy with Royal London, so the Trustee has no scope to change it. However, the Trustee does review performance of all investments on a regular basis. The default strategy strikes an appropriate balance between risk and return and is expected to meet members' long-term investment objective of achieving capital growth.

Details of the investment strategy and investment objectives for the default arrangement are set out in the Scheme's Statement of Investment Principles (SIP) included as an Appendix to this Chair's Statement.

The Scheme has an insurance policy in place with Royal London which applies to members who were contracted-out and built up a Guaranteed Minimum Pension (GMP) (the "Royal London Policy"). The Royal London Policy provides an underpin to ensure that members receive at least their GMP. This means that for members who benefit from the Royal London Policy, the Scheme's default investments can be lower risk than might otherwise be the case because the insurance policy ensures affected members will always receive at least their GMP regardless of investment performance.

## 2. Charges and transaction costs borne by members

The Trustee is required to set out the ongoing charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is reflected in the unit price of the funds. The TER sets out the total annual costs involved in running an investment fund. This includes the Annual Management Charge, plus other charges incurred in administering the fund (including, but not limited to, share registration fees, legal fees, auditor fees and custodian fees). The stated charges exclude any other administrative costs which are paid by the Sponsoring Employer.

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The charges and transaction costs relating to investments have a direct impact on investment performance and are, therefore, something in which members should be interested. The charges and transaction costs have been supplied by Royal London through whom investments are provided.

The TERs that applied to the Scheme's default arrangements as at 5 April 2023 are shown in the table below.

Funds	5 April 2023 TER
Crest Growth	1%
Crest Secure	1.45%
RS-CMP Growth (Crest continuation scheme)	1%

As can be seen, the total charges that applied to the default investment strategy at the end of the year are 1% or higher which is relatively high and in excess of the "charge cap" of 0.75% that applies to schemes used for automatic enrolment.

Costs relating to the Royal London Policy have previously been met by the Employer, so there are no costs to members for this.

Transaction costs for 2023 are not expected to be available from Royal London until 30 June 2024, so transaction costs to 31 December 2022 are shown below:

Fund	Transaction cost 31 December 2022
Crest Growth	0.080%
Crest Secure	0.063%
RS-CMP Growth (Crest continuation scheme)	0.103%

Transaction costs are incurred as a result of buying, selling, lending or borrowing investments. The costs mainly arise as a result of delivering a fund's target investment return where a passive or active investment approach is used. As an example, a fund may need to buy or sell assets when members pay money into or take money out of a fund and the buying or selling of assets will incur costs.

Transaction costs can be negative, due to the method that must be used to calculate them.

Transaction costs arise as a result of participating in a financial market and are separate from any annual management charges. The transaction cost for buying or selling an investment includes all costs incurred by a buyer or seller from the point an order to transact is received to the point at which the transaction completes. These costs include all charges, commissions, taxes and other associated payments incurred directly or indirectly. These costs are ultimately borne by assets of the arrangement or of any investment in which the arrangement is directly or indirectly invested. Of these costs, some

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are easily identifiable as specific costs incurred, but some are less identifiable and may rely on the investment manager's judgement.

The costs for actively managed funds are generally higher than for passive funds. However, the fund manager will allow for this cost when taking positions, such that the cost would be expected to be offset through future performance.

### 3. Investment performance

The figures below are annualised net investment returns to 31 March 2023 for the default investment strategies:

Fund	5 years (2018 to 2023)	3 years (2020 to 2023)	1 year (2022 to 2023)
Crest Growth	3.8%	12.7%	-0.5%
Crest Secure	1.6%	0.3%	0.3%
RS-CMP Growth (Crest continuation scheme)	5.0%	10.0%	-5.2%

### 4. Illustration of the cumulative effects of costs and charges

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. Equally, it should be noted that administration costs and investment charges need to be met and the cheapest fund is not always the best value.

The Trustee has set out overleaf illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained in the notes below the table.

The "Before charges" figures represent the savings projection assuming an investment return with no deduction of member-borne fees or transaction costs. The "After all charges & costs deducted" figures represent the savings projection using the same assumed investment return but after deducting member-borne fees.

The illustration is shown for the current default arrangements, since these are the arrangements in which most investments are held.

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The figures in the table below show the effect of the fund manager's charges on a member's fund value over incremental periods for the next 40 years.

The table shows the effect of charges based on the assumptions set out in the notes below the table.

Projected pension fund in today's money						
	Crest Growth: Balanced Retirement Investment Strategy		Crest Secure		RS-CMP Growth: Balanced Lifestyle Strategy (Annuity)	
Years	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	£9,950	£9,850	£10,100	£10,000	£9,960	£9,860
3	£10,000	£9,710	£10,400	£9,990	£9,950	£9,660
5	£10,300	£9,830	£10,700	£9,980	£10,100	£9,590
10	£11,900	£10,800	£11,500	£9,950	£10,800	£9,760
15	£14,100	£12,200	£12,300	£9,930	£11,900	£10,300
20	£17,400	£14,400	£13,100	£9,900	£13,200	£10,900
25	£21,600	£17,000	£14,000	£9,880	£14,700	£11,600
30	£26,800	£20,200	£15,000	£9,860	£16,400	£12,300
35	£33,200	£23,800	£16,100	£9,830	£18,300	£13,100
40	£41,200	£28,200	£17,200	£9,810	£20,400	£13,900

## Notes

- Projected pension fund values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- The starting fund value is assumed to be £10,000.
- Inflation is assumed to be 2.50% each year.
- No further contributions are assumed.
- Values shown are estimates and are not guaranteed.
- The projected growth rates before charges for each policy are as follows:
  - Crest Growth: Balanced Retirement Investment Strategy: 1.95% to 6.19% pa depending on how close the member is to retirement age.
  - Crest Secure: 3.9% pa.
  - RS-CMP Growth: Balanced Lifestyle Strategy (Annuity): 2.06% to 4.34% pa depending on how close the member is to retirement age.
- No allowance is made for returns arising from the Royal London insurance policy that provides the GMP underpin.

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## 5. The requirements for processing core financial transactions

The Trustee is required to report to members about the processes and controls in place in relation to the Scheme's "core financial transactions". The law specifies that these include the following:

- investing contributions paid into the Scheme (not applicable to the Scheme);
- transferring assets related to members into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

The Trustee has received assurance from the Scheme's administrator, Royal London, that there were adequate internal controls in place to ensure that core financial transactions were processed promptly and accurately during the Scheme year. This includes the processing of transfers out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Scheme has a Service Level Agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core financial transactions.

Using information provided by the administrator, which has been reviewed by the Scheme's auditor, the Trustee is satisfied that over the period covered by this statement:

- the administrator was operating appropriate procedures, checks and controls within the agreed SLA
- there have been no material administration errors in relation to processing core financial transactions
- core financial transactions have been processed promptly and accurately during the Scheme year.

## 6. 'Value for members' assessment

The Trustee is required by law to assess, on an annual basis, the extent to which member-borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustee considers that it broadly means "that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market". The review is based on the Pensions Regulator's DC Code of Practice number 13, as issued in July 2016, and the Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 which came into force on 1 October 2021. An external review was commissioned by the Trustee which was completed in May 2023 and covered the period 6 April 2021 to 5 April 2022. A further review has been conducted covering the period 6 April 2022 to 5 April 2023.

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The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

Based on the charges payable by members and the services that the Trustee provides, the Trustee has concluded that the Scheme delivers good value to members, given the Scheme guarantee (underpin), relative size of funds and availability of alternative investment vehicles. In addition, the Trustee takes comfort from the fact that members benefit from services such as regular member communications, good quality administration, professional advice (provided to the Trustee), strong Scheme governance and management at no cost to members.

In carrying out the assessment, the Trustee considered the benefits members receive from the Scheme, which include:

- promptness and accuracy of core financial transactions
- the quality of record keeping
- the appropriateness of the default investment strategy
- the quality of the Scheme's investment governance
- the level of trustee knowledge, understanding and skills to properly exercise their functions and operate the scheme efficiently
- the quality of the communication with scheme members
- the effectiveness of the management of any conflicts of interest.

## 7. Trustee knowledge and understanding

The Trustee receives regular training and updates from its advisers and maintains a log of personal trustee knowledge and understanding, which is reviewed annually.

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee must:

- be conversant with the trust deed and rules of the Scheme, the Scheme's SIP and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.
- to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, have knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding conversance, knowledge and understanding. Details of how the conversance, knowledge and understanding requirements have been met during the period covered by this statement are set out below.

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The Trustee has a working knowledge of the Scheme's trust deed and rules, SIP and documents setting out current policies.

Vidett Trustees Limited is a professional independent trustee firm, represented by a team of professionals with a wealth of experience in the pensions industry. The representatives of Vidett Trustees carry out regular training to keep updated on developments in the industry and are subject to the requirements of Continued Professional Development from professional bodies, which was completed over the period 6 April 2022 to 5 April 2023.

Vidett Trustees Limited undertake any necessary training to enable them to carry out their role as Trustee of the Scheme and regularly monitor training to ensure their skills and knowledge are appropriate and any training needs assessed. Over the period, other than the CPD carried out by the Trustee representatives, no additional training needs were identified.

As a result of the training activities completed by the Trustee and taking into account the professional advice available to the Trustee, the Trustee is confident that its knowledge and understanding enables it to undertake its duties competently and in the best interests of the Scheme membership.

Furthermore, the Trustee assesses that its degree of knowledge and understanding is appropriate for the purposes of enabling the proper exercise of functions as the Trustee of the Scheme.

**Mandy Kaur-Sadler**  
**Chair of the Trustee**  
**Vidett Trustees Limited**  
**November 2023**