

This note has been prepared for the Trustee of the Ferrari Maserati Money Purchase Pension Scheme (the "Scheme") in response to the Trustee's request that we provide a draft Chair's Statement for the Scheme.

There is a requirement for most trust-based defined contribution (DC) schemes to produce an annual Chair's Statement (referred to in this note as the "Statement"). This Statement should outline how the Scheme has complied with the prescribed minimum governance standards for DC schemes. The Trustee requested that we provide a draft Statement for the Scheme which we have included in the Appendix to this note. We are aware that the Scheme is in the process of being wound up, but the Trustee still needs to provide a Statement until this is finalised.

As you may be aware, the Pensions Regulator (TPR) has issued fines for non-compliant Chair's Statements. We have produced the draft Statement in the Appendix based on our template which has been guided by our understanding of the requirements. However, it is the Trustee's responsibility to produce a compliant Statement and LCP cannot be held responsible for any fines that TPR may impose upon the Trustee. Therefore, we strongly recommend that the Trustee obtains legal advice to ensure that all requirements have been met; for efficiency, and reflecting the timescales involved, we suggest that you ask the legal advisers to restrict themselves to what they consider to be essential comments.

TPR has issued a "[Quick guide to the chair's statement](#)" which includes a checklist of items to include for each section of the statement. In particular we suggest that the Trustee looks at the section titled 'Demonstrating how you have met the requirements around trustees' knowledge and understanding' when completing the highlighted part of Section 6 of the draft Statement below. The Trustee training log in this section has been highlighted for completion. We requested this information from Capita, but they were unable to supply details of Trustee training received during the period – in the absence of this we are unable to complete this section ourselves.

TPR's [quick guide](#) also gives some examples of good practice for each requirement, as well as some common misunderstandings and omissions the Regulator says it has seen in the statements submitted to it so far. TPR has also published an accompanying [technical appendix](#) which trustees can refer to in chair statements.

The Trustee should review the Statement, and have it signed<sup>1</sup> by the Chair of Trustee and include it within the Trustee's Report and Accounts ending 31 March 2019 to comply with the relevant regulations. The Statement needs to be produced and dated within seven months of the end of the Scheme year.

<sup>1</sup> TPR guidance states that the Statement should have a physical signature.

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Please also note the requirement that the SIP wording covering the DC default arrangement must be included in the Statement. Please let me know if you would like us to help you produce the required extract. However, in our experience, many trustees find it easier to attach their scheme's whole SIP.

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#### Requirement for publication on the internet

For Statements covering periods ending on or after 6 April 2018, the Trustee is required to publish the charges and transaction costs illustration and certain other parts (see below) of the Statement on a website for public access (including, potentially, viewing by TPR).

- The information should be publicly available in a manner which allows for the content to be indexed by search engines. No passwords or personal information can be required to view this information.
- It can be published on the Scheme's or employer's website, or another website such as a social media site or a repository offered by a search engine provider.
- A specific web address<sup>2</sup> for the location of the published materials on the internet must be included in members' Annual Benefit Statement (where members do not receive one they must be sent a separate notification containing this information).

At a high level the minimum material required to be published is:

- The SIP for the default arrangement and details of any review of the default strategy and performance of the default arrangement (or if no review was undertaken, the date of the latest review).
- The member charges incurred and transaction costs for each default arrangement and self-select fund which members were able to select and had member assets invested in during the year.
- The value for members' assessment.
- The illustration of charges and transaction costs.

In other words, most of the Chair's Statement apart from details of the scheme's administration and Trustee knowledge and understanding. However, TPR's guidance<sup>3</sup> encourages schemes to publish the full Chair's Statement.

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<sup>2</sup> The web address should be appropriately titled so that members can readily re-type it into a web browser and should clearly signpost the nature of the information to be found at the location.

<sup>3</sup> See the Reporting section of <https://www.thepensionsregulator.gov.uk/en/trustees/managing-dc-benefits/6-communicating-and-reporting>

**3623326** Please contact us if you have any questions.

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**+** Prepared as an attachment to an email  
at 15:15 on 1 November 2019

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Enc: Statement of Investment Principles (dated 20 September 2019)

**The use of our work**

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with Ferrari Maserati Pension Scheme Trustee Limited ("Our Client").

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## 1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the Ferrari Maserati Money Purchase Pension Scheme (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement (which is signed by the Chair of Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the "default arrangement" and other funds members can select);
- 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 1 April 2018 to 31 March 2019.

The Scheme closed to new contributions from 31 January 2017 and is currently in the process of being wound-up. Consequently, it is not used as a Qualifying Scheme for auto-enrolment. As part of the wind-up process the Trustee will transfer members' funds to a Section 32 policy with Scottish Widows. This is expected to take place in 2020.

## 2. Default arrangements

The default investment arrangement, the Lifestyle Investment Programme, is designed for members who joined the Scheme and did not choose an investment option. The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default.

When deciding on the Scheme's investment strategy, the Trustee recognises that most members do not make active investment decisions and instead invest in the default arrangement. After taking advice, the Trustee decided to make the default arrangement a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

Details of the objectives and the Trustee's policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP, dated 20 September 2019, covering the default arrangement is attached to this Statement. The objective of the default arrangement, as stated in the SIP, is to generate returns significantly

above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments as members near retirement.

The default option was designed to be in the best interests of the majority of the members based on the demographics of the Scheme's membership. The default option targets annuity purchase at retirement. Therefore, in the initial growth phase the default option is invested to target a return significantly above inflation, and then in the 5 years before retirement, it switches gradually into less risky assets, with the asset allocation at retirement being designed to be appropriate for members taking 25% of their assets as cash and using the remaining 75% to purchase an annuity.

To help manage the volatility that members' assets experience in the growth phase of the default strategy, the Trustee has made an allocation to "multi-asset fund", which over the long term is expected to generate returns materially above inflation, but with lower volatility than equities.

The default arrangement was not reviewed during the period covered by this Statement. The last review was completed in September 2014 as part of the investigation into the proposed wind-up of the Scheme. Following subsequent discussions between the Trustee and the sponsoring employer, it was decided that each member's accrued benefits should be settled through the purchase of annuity contracts ("Section 32 policies"). Scottish Widows (a regulated insurance company) has been selected by the Trustee for this purpose. Once members' benefits have been settled and certain other regulatory matters addressed, the Scheme will be wound-up in 2020. The Trustee has notified The Pensions Regulator that it has not subsequently reviewed the default arrangement due to the fact that it has triggered wind-up.

The Trustee will continue to monitor the performance of the default arrangement until these remaining members have been transferred out of the Scheme and wind-up has been finalised.

### 3. Requirements for processing core financial transactions

Processing core financial transactions (such as the investment of contributions, processing transfers in and out of the Scheme, and payments to members/beneficiaries) is carried out by the administrators of the Scheme, Capita Employee Benefits Limited.

The administrator has confirmed to the Trustee that it has adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately, as evidenced by:

- Capita's AAF 01/06 assurance report on internal controls;
- An annual review of Capita's performance against pre-agreed Service Level Agreements ("SLAs"). This is carried out at regular meetings held by the Trustee.
- Processes agreed with the Capita administration team which ensure that benefit calculations, payments and transactions are done, checked and reviewed by

appropriately senior members of the administration team. This includes a policy by which payments over £150,000 are reviewed by a Senior Manager at Capita.

The Trustee typically receives annual updates about the administrator's performance and compliance with the SLAs. However, the annual reports have been on hold recently as the Scheme is winding-up. Capita has confirmed there is a process in place such that any administration issues arising are notified to the Trustee on an ad-hoc basis. Consequently, using the information it has available, which is reviewed by the auditors, the Trustee is satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

Based on the reporting procedures agreed with Capita, the Trustee is satisfied that there have been no administration issues or member complaints over the year covered by this Statement, and that there are no unresolved administration matters outstanding.

#### 4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred 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 paid by the members and is reflected in the unit price of the funds. In addition, there is an expense charge of 1% pa that is met by members of the Scheme as a contribution towards the administration charges of running the Scheme.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The TER charges and transaction costs have been supplied by BlackRock who are the scheme's investment manager and platform provider. All transaction costs have been obtained for the period covered by this Statement. The Scheme's administrator, Capita, confirmed details of the additional member charge in relation to administration expenses. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

The default arrangement is the Lifestyle Investment Programme. The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which fund they are invested.

For the period covered by this Statement, annualised charges, administration costs and transaction costs are set out in the table below.

**Default arrangement charges and transaction costs**

Years to target retirement date	TER	Member administration cost	Transaction costs
5 or more years to retirement	0.15%	1.0%	0.02%
3 years to retirement	0.13%	1.0%	0.01%
At retirement	0.11%	1.0%	0.00%

4.2. **Self-select options**

In addition to the default lifestyle, members also have the option to invest in three self-select funds. The level of charges for each self-select fund, administration costs and the transaction costs over the period covered by this Statement are set out in the following table. All of the underlying funds are used within the default arrangement.

**Self-select fund charges and transaction costs**

Manager – Fund name	TER	Member Administration cost	Transaction costs
BlackRock Aquila Life Consensus Fund	0.15%	1.0%	0.02%
BlackRock Aquila Life Over 15 Years UK Gilt Index Fund	0.10%	1.0%	0.00%
BlackRock Aquila Life Cash Fund	0.15%	1.0%	0.02%

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees (ie the TER), the member administration charge or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees, the administration charge and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).

The illustration is shown for the default option (the Lifestyle Investment Programme), as well as the three individual funds that are available as part of the Scheme's self-select fund range.

*Projected pension pot in today's money*

Years invested	Default option		Aquila Life Consensus Fund		Aquila Life Cash Fund		Aquila Life Over 15 Year UK Gilt Index Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£11,400	£11,300	£11,400	£11,300	£10,900	£10,800	£10,900	£10,800
3	£12,100	£11,700	£12,100	£11,700	£10,600	£10,200	£10,600	£10,200
5	£12,800	£12,100	£12,800	£12,100	£10,300	£9,700	£10,300	£9,700
10	£14,900	£13,300	£14,900	£13,300	£9,500	£8,400	£9,500	£8,500
15	£17,200	£14,500	£17,200	£14,500	£8,800	£7,400	£8,800	£7,400
20	£20,000	£15,900	£20,000	£15,900	£8,200	£6,400	£8,200	£6,500
25	£23,100	£17,400	£23,100	£17,400	£7,600	£5,600	£7,600	£5,700
30	£26,800	£19,100	£26,800	£19,100	£7,000	£4,900	£7,000	£5,000
35	£31,100	£20,900	£31,100	£20,900	£6,500	£4,300	£6,500	£4,400
40	£31,600	£20,000	£36,100	£22,800	£6,000	£3,700	£6,000	£3,900

See notes overleaf

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- The starting pot size used is £11,100, which is the current median pot size for the Scheme.
- The projections make no allowance for future contributions on the basis that the Scheme closed to future contributions on 31 January 2017.
- The projected annual returns (gross of fees) used are as follows:
  - Default option: 3.0% above inflation for the initial years, gradually reducing to a return of 1.5% below inflation at the ending point of the lifestyle.
  - Aquila Life Consensus Fund: 3.0% above inflation.
  - Aquila Life Cash Fund: 1.5% below inflation.
  - Aquila Life Over 15 Year UK Gilt Index 1.5% below inflation.

## 5. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges (including transaction costs where available) with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. Value for members is reviewed on a continuous basis noting 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. The Trustee's investment advisers have confirmed that the TER fund charges are reasonable for the types of fund available to members based on experience for other similar schemes and reflecting their knowledge of the wider pensions market. However, the investment advisers have also highlighted that the additional 1% pa member charge in respect of administration expenses is significantly higher than they typically see in the market.

The Trustee's assessment included a review of the performance of the Scheme's investment funds (after all the TER charges levied by BlackRock but excluding the additional administration charge met by members) in the context of their investment objectives, evidenced by robust monthly and quarterly performance reporting from BlackRock.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

In addition, the Trustee has taken into account the fact that the costs of the Scheme are predominantly borne by the members. However, if actual Scheme charges are higher than the administration charges paid by members the employers bear the balance of the costs. These could be in relation to:

- Administration costs
- Charges for provision of investment platform
- Cost of running the Trust Board
- Cost of advice (consulting fees, legal costs, other advice)

Overall, the Trustee believes that members of the Scheme are receiving fair value for money for the charges and cost that they incur, whilst appreciating the total charges met by Scheme members are high relative to other similar schemes.

In light of this, the Trustee is looking to improve the benefit provision for members by working with the sponsoring employer to transfer all members to an alternative pension arrangement in 2020. This will facilitate access to lower fees than the Scheme, an improved investment fund range and a more advanced online experience. Consequently, the Scheme will be wound-up in due course.

## 6. Trustee knowledge and understanding

The Scheme's sole Trustee director, PTL Governance Limited, is required to maintain appropriate levels of knowledge and understanding to ensure it can run the Scheme effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below. PTL have a training program for all of their staff and are subjected to independent audit of their controls and processes through the AAF01/07 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 PTL as Trustee of the Scheme. The annual review process within PTL identifies training needs for each individual and has a requirement for a minimum of 15 hours Continuing Professional Development (CPD) to be completed each year. Each Director is shadowed by another Client Director and calls take place on a three monthly basis to provide a peer review to the work undertaken and challenge the Director running the matter. All key decisions would be subject to peer review by the shadow Client Director or another Director. The Trustee is a qualified actuary and so has an in depth understanding of the funding and investment issues related to the Scheme. They are also subjected to CPD requirements of the actuarial profession.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustee received training on the following topics:

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- How Environmental, Social and Governance (“ESG”) factors are built into investment process

Appendix (cont)

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- Value for Money assessments
- DC retirement choices
- General Data Protection Regulation (“GDPR”)

The Trustee has completed the Pension Regulator’s Trustee Toolkit and a training log is maintained by the Trustee in line with best practice and is reviewed on an ongoing basis to ensure it is up to date. Additionally, the Trustee receives regular updates on topical issues from its pension and investment advisors.

As a professional independent trustee, the Trustee has a good knowledge of the legal and regulatory requirements for occupational pension schemes; including investment matters, pension and trust law. Furthermore, the Trustee is familiar with the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments) and SIP . If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Scheme’s legal advisers. In particular, the Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme.

PTL operate 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 and queries. The Trustee reviews these documents on an annual basis to ensure they are still suitable and makes any changes as required. The Trustee also undertakes a review of the DC section against the Code of Practice 13 requirements and these are reviewed on an annual basis.

Taking into account the knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.



Date:

4/11/19

**Signed by the Chair of Trustee of the Ferrari Maserati Money Purchase Pension Scheme**