Wincanton plc Pension Scheme

Scheme Registration Number: 10254968

Trustee's Annual Report and Financial Statements
For the Year ended 31 March 2023 –
Implementation Statement Only

Richard Goodman

Chair's DC Governance Statement

2023 Chair's DC Governance Statement

Introduction

On behalf of the Trustee Board, I am pleased to present the Annual Governance Statement for the year ended 31 March 2023. This has been prepared to demonstrate how the Trustee Board has complied with the statutory governance regulations which are central to the running of the Defined Contribution sections of the Scheme. The governance standards were designed to help members achieve a good outcome from their pension savings and the Trustee seeks to work to meet these standards.

The Trustee Board is committed to having high governance standards and we have a number of dedicated sub-committees which, together with the overall Trustee Board, meet regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration.

Whilst the information set out below is focused on specific areas of scheme governance which we are required to disclose by law, the Trustee Board recognises the importance of good scheme governance and adopts appropriate governance standards across all areas of scheme management to ensure we meet the expectations as set out in the Pension Regulator's Defined Contribution Code.

If you have any questions about anything that is set out in this statement, or any suggestions about what can be improved, please do contact our Pensions Manager.

Continued Inflationary Environment and Ukraine Crisis

The Trustee is aware that the Russia-Ukraine crisis has been and continues to be a particularly difficult time for members and some may be more reliant on pension payments than ever before.

Investment markets around the world continue to experience periods of uncertainty and performance volatility over the one year period and high levels of inflation as global growth (with a particular focus on the energy sector) is linked to Russia energy supply disruption.

Global equity markets experienced a rough year since the Russian invasion, during most of 2022. The conflict resulted in economic and investment repercussions such as the exodus of some big multinational companies from Russia. Energy prices broke records which allied with the rising rates and the political uncertainty led to equity-market drawdowns that lasted until September 2022 for major global markets with U.S and emerging markets equities being the greatest losers.

Contrary to expectations due to proximity to the war European equity markets did not do as badly as expected and ended up 2% up over one year period (measured in local currency). Countries with both geographical proximity to the conflict zone and gas dependency on Russia (notably, Hungary, Poland and Germany) exhibited negative returns. The U.K. had a strong finish to the year despite being hit hard by energy-price inflation.

One year after the beginning of the war, inflation has started to decline with energy prices falling. Bond-market pricing have also shown that major central banks are pushing to successfully drive inflation toward 2% policy targets over the next several years, after a significantly recovery from its lows experienced in the second and third quarters of 2022.

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Investments – the default investment arrangement

The Scheme’s default investment arrangement, which is designed by the Trustee Directors, is provided for members who join the Scheme and who do not choose another specific investment option for their contributions. We believe that the default investment fund will be suitable for the majority of the membership. This year, 94% of the membership had their contributions invested in the default arrangement.

Some members prefer to make their own investment choices to suit their individual circumstances. We therefore also offer a range of alternative investment options for such members.

Cash at Retirement Lifestyle Option

The Trustee Directors are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme’s default arrangement. We have chosen the Cash at Retirement Lifestyle Option as our default arrangement. A summary of the investment strategy and investment objectives of the default arrangement are set out below. However, full details are recorded in the Statement of Investment Principles which is appended to this Governance Statement.

The Scheme’s default arrangement has been designed to provide a cash lump sum at retirement. The default arrangement is designed to take more risk, and thus the potential for greater returns, whilst members are younger but that the level of risk and volatility is reduced as members get nearer to their retirement date so that they have more certainty about the likely level of their potential pension savings at retirement. The default arrangement assumes, that a member’s normal retirement date will be at age 65, although members can set their own target retirement date if they wish.

The default arrangement is structured so that changes in the underlying investments to meet the objectives described above happen automatically so that members do not need to make investment switches themselves. During the early period of each member’s working life, all contributions are invested in an equity fund, the Aquila Life 30:70 Currency Hedged Global Equity Fund managed by BlackRock. Over time, starting 26 years before retirement, money is moved gradually from this equity fund into a diversified growth fund, also managed by Blackrock, the Aquila Life Market Advantage Fund.

This slow, gradual transfer of funds continues until 10 years before retirement at which point there is a 50% allocation to both the Aquila Life 30:70 Currency Hedged Global Equity Fund and the Aquila Life Market Advantage Fund. This equal investment split is then maintained until 6 years prior to retirement at which point members’ pension savings are moved gradually into the Cash Fund, which is the target end objective for the default arrangement.

By investing in this way, the Trustee expects to deliver real growth in members’ pension savings over their lifetime within the Scheme whilst helping to manage risk and reduce volatility as members move towards retirement. The Trustee considers this strategic approach to be in the best interests of the membership.

Reviewing the default investment arrangement

The Trustee Directors are expected to review the investment strategy and objectives of the default investment arrangement at regular intervals (at least once every 3 years), considering the needs of the Scheme membership when designing the default arrangement.

The Scheme’s Investment Sub Committee reviews the investment objectives and the performance of the default arrangement at its regular quarterly meetings and takes advice from Mercer, the Scheme’s investment advisor, in this regard. In addition, the Trustee carried out the last triennial review of the investment strategy and objectives of the default arrangement in June 2021. This investment strategy review considered a number of factors including

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the Scheme's membership profile, forward looking projections, costs, historic performance and the choice of benefits taken at retirement. The review considered the suitability of the target for the default arrangement, the structure and underlying funds used within this arrangement and the range of self-select funds offered to members, The Trustee board concluded that the current default arrangement continues to meet the needs of the vast majority of members, is cost effective for members and has delivered good long-term performance. No changes in default investment strategy structure, both in the growth phase and at-retirement. On the self-select fund range, the BlackRock ESG Equity Tracker and HSBC Islamic Equity Index were introduced and made available to members in November 2021.

Subsequent work has been undertaken during the Scheme year to review the appointment of the BlackRock Aquila Life Market Advantage Fund, due to concerns over performance. The Trustee has selected a replacement for this Fund as has been working with the Scheme administrators in relation to implementing the change.

The vast majority of our members (91% since 2015) take their pension as a cash lump sum upon reaching retirement and the default arrangement is designed to facilitate this. The Scheme does not offer a drawdown arrangement as few members have pension pots of sufficient size at retirement for drawdown to be a realistic option.

The Trustee continues to monitor the use of the default investment arrangement, investment choices made by members and also the choices members make when benefits come into payment. This will help to inform us about changes which are appropriate in future. The next review is due in 2024.

Alternative investment options

We offer another lifestyle option in addition to the default arrangement, which is available to all members – this time targeting an income for life at retirement rather than a cash sum, called the Income at Retirement Lifestyle Option. If you were a member of the Scheme in October 2015 and at that time were less than 10 years away from your Target Retirement Date, then you will have remained in the Income at Retirement Lifestyle Option (unless you have selected a different investment option). In the last investment strategy review, 5% of members had their contributions invested in this lifestyle option.

In addition, the Trustee Directors have continued to make available a range of ten self-select funds, which can be chosen by members as an alternative to the lifestyle options. These funds allow members to take a more tailored approach to managing their own pension investments based on their personal circumstances.

Additional Voluntary Contributions – Defined Benefit Section

In 2019, the Trustee undertook an exercise to consolidate the AVC investments of the Scheme within the DC Section, managed by Aegon on their investment platform. This was achieved for the majority of the members.

However, a number of members who were invested with Aegon on a different platform remained as they held investments in with-profits policies and unit linked policies on that platform. The reason for maintaining their policies was due to Aegon being unable to detach the unit linked policies from the with-profits policies in their member record keeping system – meaning that the both policies would need to be disinvested, not just the unit linked funds.

At March 2023, there were a total of 21 members invested, with some members are invested in more than one fund. The total fund value above excludes the value of any terminal bonuses from the With Profits policies, which are paid when the member retires. The Trustee has verified that the charging levels for these members are similar to the funds within the DC section.

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Net return on investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 ('the 2021 Regulations') introduce new requirements for trustees of 'relevant' occupational pension schemes.

From 1 October 2021, trustees of all relevant pension schemes, regardless of asset size, are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges.

The tables below set out annualised net performance for the 1 and 5 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range.

Lifestyles

Lifestyle strategies Target Cash Strategy*	Annualised returns to March 2023 (%)	
Age of member	**1 year**	**5 years**
25	-3.4	6.8
45	-4.5	5.1
55	-5.8	3.6

Source: Aegon and Mercer.

Lifestyle strategies Target Annuity Strategy*	Annualised returns to March 2023 (%)	
Age of member	**1 year**	**5 years**
25	-3.4	6.8
45	-4.5	5.1
55	-5.8	1.0

Source: Aegon and Mercer.

**As the growth phase is equal between lifestyles, the expected returns are assumed to be the equal as well. Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown.*

Self-Select Funds

Self-select funds	Annualised returns to March 2023 (%)	
	1 year	5 years
DC Aquila Life Market Advantage Fund	-8.2	0.5
DC Aquila (30:70) Currency Hedged Global Equity Index	-3.4	6.8
DC Cash Fund	2.1	0.7
LGIM Future World Annuity Aware Fund	-19.7	-3.2
DC Aquila Over 15 Year Corporate Bond Index Fund	-23.4	-3.5
DC Aquila Over 15 Year Gilt Index Fund	-30.1	-6.5
DC Aquila Over 5 Year Index Linked Gilt Index	-29.6	-4.2
DC Aquila UK Equity Index Fund	2.2	4.7
BlackRock World ESG Equity Tracker *	-1.5	n/a
HSBC Islamic Global Equity Index *	-3.3	n/a

Source: Aegon and Mercer.

Performance shown net of all charges and transaction costs. Performance of standalone self-select options is independent of age, therefore performance is shown in a different format to the lifestyle performance on the previous page.

**Inception date: 30 November 2021*

Charges and transaction costs

The employer currently pays many of the costs of running the Scheme. These include the administration costs and the other costs incurred by the Trustee in running the Scheme such as the costs of the advice the Trustee Directors take from their advisors in order to ensure the Scheme best meets members' interests. The only costs currently borne by members are the charges levied by the investment managers of the funds in which their pension monies are invested. These charges are automatically accounted for in the daily unit price of each fund the Scheme makes available to its DC members, which means that any valuation or statement a member receives will be shown after charges have been deducted.

We are required to explain both the investment charges (i.e. the underlying costs incurred by the investment managers in running the funds in which your money is invested) and the transaction costs (i.e. the costs of buying and selling investments).

In addition, we are required to assess whether or not we believe, given the investment charges and transaction costs incurred by members, the Scheme offers good value for members.

Investment charges

The Trustee Directors monitor the investment charges incurred by the different funds we make available to members by focusing on the Total Expense Ratio of each fund.

The individual funds within the default investment arrangement have total expense ratios between 0.13% p.a. to 0.27% p.a. of assets under management. Given that each member within the default arrangement is invested in

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more than one fund for much of their membership of the Scheme and the allocations to each of these funds will change as the member nears their target retirement date, the total expense ratio varies over time.

However, the total expense ratio for those in the default arrangement is not expected to exceed 0.2% per annum at any stage.

The alternative lifestyle option and the range of ten self-select funds have total expense ratios of between 0.11% p.a. and 0.43% p.a.

Transaction costs

The Trustee has identified separately, the underlying transaction costs associated with each fund for the following;

- the trading of individual investments that goes on within the separate funds from both buying and selling
- ongoing switches to the underlying funds as part of the lifestyle investment options (i.e. made during a member's working life),
- Any taxation that is applied to the trading of investments, such as stamp duty,
- Any costs, and possible benefits, that have been incurred from the activity of lending securities within the funds, and
- Any costs that have been incurred from the payment of broker fees and commissions.

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Transaction costs

The table below sets out the total expense ratios and total transaction costs of each individual fund. The Scheme access three investment managers, which are BlackRock (who managed the Aquila Funds), Legal & General Investment Management and HCBS Global Asset Management

Fund	Total Expense Ratio p.a.	Transaction Costs	Total Costs
DC Aquila Life Market Advantage Fund *(a) (b)*	0.27%	0.18%	0.45%
DC Aquila (30:70) Currency Hedged Global Equity Index *(a) (b)*	0.16%	0.01%	0.17%
DC Cash Fund *(a)*	0.13%	0.01%	0.14%
LGIM Future World Annuity Aware Fund *(b)*	0.21%	0.02%	0.23%
DC Aquila Over 15 Year Corporate Bond Index Fund	0.17%	0.12%	0.29%
DC Aquila Over 15 Year Fixed Interest Gilt Index Fund	0.11%	0.01%	0.12%
DC Aquila Over 5 Year Index Linked Gilt Index	0.11%	0.08%	0.19%
DC Aquila UK Equity Index Fund	0.11%	0.02%	0.13%
BlackRock World ESG Equity Tracker	0.21%	0.06%	0.27%
HSBC Islamic Global Equity Index	0.43%	-0.07%	0.36%

Source: Aegon,

(a) The Cash at Retirement Lifestyle option utilises the 30/70 Global Equity Fund, Market Advantage Fund and Cash Fund.

(b) The Income at Retirement Lifestyle option utilises the 30/70 Global Equity Fund, Market Advantage Fund, Future World Annuity Aware Fund and Cash Fund

Reporting of Costs and Charges

Using the charges and transaction cost data provided by Aegon and in accordance with regulation 23(1)(ca) of the Administration Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance has been considered when providing these examples.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following (with the Scheme's relevant funds/strategies listed in brackets):
- The fund or strategy with the most members invested (Default Lifestyle)
- The most expensive fund (Aegon BlackRock Market Advantage (BLK))
- The least expensive fund (Aegon BlackRock Over 15 Year Gilt Index (BLK))

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The illustrations that follow take into account the following elements:

- Initial savings pot size;
- Contributions, where applicable;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical active member's pension pot, we have provided the below illustrations, which accounts for all estimated member costs, including the TER, transaction costs and inflation.

Illustration 1: A typical active member invested in the DC fund range

	Most popular fund: Default Lifestyle		**Highest cost fund: Aegon BlackRock Market Advantage (BLK)**		**Lowest cost fund: Aegon BlackRock Over 15 Year Gilt Index (BLK)**	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
45	£13,547	£13,514	£13,516	£13,453	£13,140	£13,124
50	£29,643	£29,272	£29,347	£28,717	£25,626	£25,490
55	£49,065	£47,942	£48,332	£46,603	£38,431	£38,098
60	£72,383	£69,960	£71,099	£67,560	£51,563	£50,953
61	£77,119	£74,392	£76,170	£72,165	£54,229	£53,554
62	£81,606	£78,583	£81,428	£76,918	£56,909	£56,166
63	£85,659	£82,371	£86,882	£81,824	£59,603	£58,787
64	£89,072	£85,579	£92,536	£86,889	£62,310	£61,419
65	£91,937	£88,297	£98,401	£92,116	£65,031	£64,061

Notes

1. *Values shown are estimates at end of each year and are not guaranteed.*
2. *Projected pension pot values are shown in today's terms.*
3. *To make this analysis representative of the membership, the Trustees based this assumed member on data sourced from the administrator. The assumed member is age 44, with a normal retirement age of 65, using a starting pot size of £10,680 and a salary of £30,000. The member's total contributions (including those from the employer) are assumed to be £2,400 of the member's salary per annum, and is assumed to increase in line with inflation.*
4. *Inflation is assumed to be 2.5% per annum.*
5. *Charges, transaction costs and estimated growth rates are assumed as follows:*

	TER	***Transaction costs***	***Growth rate assumptions***
Default Lifestyle	*0.18% p.a. for members 6 or more years from retirement, falling to 0.13% p.a. for members at retirement.*	*0.06% p.a. for members 6 or more years from retirement; an average of 0.10% for members within 6 years of retirement and beyond.*	*p.a. before inflation for members 6 or more years from retirement, to p.a. before inflation for members at retirement*
Aegon BlackRock Market Advantage (BLK)	*0.27% p.a.*	*0.19% p.a.*	*6.00% p.a. before inflation*
Aegon BlackRock Over 15 Year Gilt Index (BLK)	*0.11% p.a.*	*0.01% p.a.*	*3.00% p.a. before inflation*

Charge and costs figures provided by Aegon; growth rate assumptions provided by Mercer. The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund, where available. As Aegon is unable to provide historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for 5 year periods to 31/03/2023.

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Illustration 2: A youngest active member invested in the DC fund range

	Most popular fund: Default Lifestyle		Highest cost fund: Aegon BlackRock Market Advantage (BLK)		Lowest cost fund: Aegon BlackRock Over 15 Year Gilt Index (BLK)	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
19	£3,420	£3,413	£3,412	£3,396	£3,337	£3,333
20	£5,375	£5,358	£5,353	£5,312	£5,143	£5,133
25	£16,400	£16,260	£16,190	£15,857	£14,310	£14,238
30	£29,835	£29,418	£29,187	£28,214	£23,711	£23,521
35	£46,206	£45,299	£44,772	£42,693	£33,353	£32,987
40	£66,144	£64,448	£63,461	£59,658	£43,241	£42,638
45	£90,256	£87,231	£85,874	£79,537	£53,382	£52,479
50	£119,297	£114,127	£112,751	£102,829	£63,782	£62,513
55	£154,163	£145,683	£144,982	£130,122	£74,447	£72,744
60	£195,838	£182,659	£183,633	£162,103	£85,386	£83,176
61	£203,874	£189,698	£192,242	£169,130	£87,607	£85,287
62	£211,120	£196,009	£201,170	£176,383	£89,839	£87,406
63	£217,140	£201,228	£210,427	£183,870	£92,082	£89,533
64	£221,471	£204,974	£220,028	£191,598	£94,337	£91,669
65	£224,401	£207,518	£229,983	£199,575	£96,604	£93,813

Notes

1. *Values shown are estimates at end of each year and are not guaranteed.*
2. *Projected pension pot values are shown in today's terms.*
3. *To make this analysis representative of the membership, the Trustees based this assumed member on data sourced from the administrator. The assumed member is age 18, with a normal retirement age of 65, using a starting pot size of £1,540 and a salary of £22,310. The member's total contributions (including those from the employer) are assumed to be £1,785 of the member's salary per annum, and is assumed to increase in line with inflation.*
4. *Inflation is assumed to be 2.5% per annum.*
5. *Charges, transaction costs and estimated growth rates are assumed as follows:*

	TER	***Transaction costs***	***Growth rate assumptions***
Default Lifestyle	*0.16% p.a. for members 6 or more years from retirement, falling to 0.13% p.a. for members at retirement.*	*0.03% p.a. for members 6 or more years from retirement; an average of 0.03% for members within 6 years of retirement and beyond.*	*p.a. before inflation for members 6 or more years from retirement, to p.a. before inflation for members at retirement*
Aegon BlackRock Market Advantage (BLK)	*0.27% p.a.*	*0.19% p.a*	*6.00% p.a. before inflation*
Aegon BlackRock Over 15 Year Gilt Index (BLK)	*0.11% p.a.*	*0.01% p.a*	*3.00% p.a. before inflation*

Charge and costs figures provided by Aegon; growth rate assumptions provided by Mercer. The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund, where available. As Aegon is unable to provide historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for 5 years period to 31/03/2023.

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Illustration 3: A deferred member invested in the DC fund range

	Most popular fund: Default Lifestyle		Highest cost fund: Aegon BlackRock Market Advantage (BLK)		Lowest cost fund: Aegon BlackRock Over 15 Year Gilt Index (BLK)	
Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
45	£8,712	£8,691	£8,690	£8,650	£8,422	£8,413
50	£10,567	£10,400	£10,421	£10,135	£8,638	£8,578
55	£12,786	£12,390	£12,497	£11,876	£8,858	£8,746
60	£15,430	£14,710	£14,986	£13,916	£9,085	£8,918
61	£15,921	£15,131	£15,541	£14,364	£9,131	£8,952
62	£16,346	£15,491	£16,116	£14,826	£9,177	£8,987
63	£16,672	£15,761	£16,712	£15,304	£9,223	£9,022
64	£16,867	£15,915	£17,330	£15,797	£9,270	£9,057
65	£16,954	£15,973	£17,972	£16,305	£9,317	£9,093

Notes

1. *Values shown are estimates at end of each year and are not guaranteed.*
2. *Projected pension pot values are shown in today's terms.*
3. *To make this analysis representative of the membership, the Trustees based this assumed member on data sourced from the administrator. The assumed member is age 44, with a normal retirement age of 65, using a starting pot size of £8,380. No further contributions were assumed.*
4. *Inflation is assumed to be 2.5% per annum.*
5. *Charges, transaction costs and estimated growth rates are assumed as follows:*

	TER	*Transaction costs*	*Growth rate assumptions*
Default Lifestyle	*0.18% p.a. for members 6 or more years from retirement, falling to 0.13% p.a. for members at retirement.*	*0.06% p.a. for members 6 or more years from retirement; an average of 0.10% for members within 6 years of retirement and beyond.*	*p.a. before inflation for members 6 or more years from retirement, to p.a. before inflation for members at retirement*
Aegon BlackRock Market Advantage (BLK)	*0.27% p.a.*	*0.19% p.a.*	*6.00% p.a. before inflation*
Aegon BlackRock Over 15 Year Gilt Index (BLK)	*0.11% p.a.*	*0.01% p.a.*	*3.00% p.a. before inflation*

Charge and costs figures provided by Aegon; growth rate assumptions provided by Mercer. The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years' transaction costs for each fund, where available. As Aegon is unable to provide historic transaction costs for these funds, the transaction costs shown above are an average of the costs provided for 5 year periods to 31/03/2023.

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Good value for members

When assessing the charges and transaction costs which are payable by members the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members compared to other options in the market.

There is no legal definition of “good value” and the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisors and considered regulatory guidance.

As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of return they have delivered to members. The passively managed funds we make available to our members are in line with their performance targets net of investment fees, for both the last one and three-year periods with the exception of the BlackRock Index-Linked Gilts which underperformed the benchmark on a net of fees basis by 0.8% and 1.3% over the one and three year periods to 31 March 2023. Our only actively managed fund, the Market Advantage Fund, fell short of its performance target by 13.9% and 2.1% per annum, net of investment fees, over the one-year and three-year period respectively over period to 31 March 2023.

The Future World Annuity Aware Fund has also underperformed the benchmark by 4.6% and 1.9%, per annum, net of investment fees, over the one-year and three-year period respectively over period to 31 March 2023.

The Trustee Board should closely monitor the Market Advantage Fund and Future World Annuity Aware. Although, it was decided to maintain Market Advantage Fund as part of the current default growth phase, the Trustee will consider alternatives in future reviews and on an ongoing basis.

We have also compared our fund’s total expense ratios with the Government charge cap of 0.75%. All our funds have total expense ratios that are significantly below this level. The Trustee has been advised that the Scheme’s charges are competitive with those applied to similar products in other pension funds of similar size and that they are also below charges levied for similar products which members might be able to purchase as individual savers.

The Trustee appreciates that low cost does not necessarily mean better value, so we have also considered how the investment charges and costs borne by members compare to the services and benefits provided by the Scheme. In the Trustee Directors’ view, the benefits of membership are considerable. These benefits include:

- The design of the default arrangement and how this reflects the interests of our members
- The range of investment options and strategies provided
- The flexible arrangements available to members on retirement including the extended benefit options the Scheme provides that enable members to take their entire pension fund as cash or as a series of cash payments
- The quality of communications delivered to members, including our Scheme web site providing members with 24-hour online access to their individual pension account and our Trustee newsletter
- The dedicated telephone helpline available to members
- The fact that many of the costs of running the Scheme are met by the Company and not by members.

Based on our assessment we have concluded that the Scheme *does* represent good value for members for the charges and cost that they incur.

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Core financial transactions

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

- Investing contributions paid into the Scheme
- Transferring assets related to members into or out of the Scheme
- Transferring assets between different investments within the Scheme
- Making payment from the Scheme to or on behalf of members.

Your Trustee Board must ensure that these important transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the Scheme Administrator, Capita and carry out regular reviews of their performance including regular monitoring of member feedback.

Capita collects contributions from the Company which is then allocated to individual member records. Contributions are usually invested within 3 working days of receipt. Straight through processing is in place, linking Capita with an investment platform operated by Aegon, for the investment of contributions, disinvestments and reconciliation of investment funds. The processes and controls adopted by the Scheme Administrator to help meet service level standards include having in place a dedicated contribution processing team, daily monitoring of bank accounts and at least two individuals checking all investment and banking transactions.

The Scheme Administrator provides quarterly reports to the Trustee Board, which enable us to assess how quickly and effectively the core scheme financial transactions are completed and whether they have met contractual service level standards. The reports include reconciliations of investment transactions and member units in each fund. Any mistakes, delays or complaints are investigated thoroughly and action is taken to put things right as quickly as possible.

We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with promptly.

In addition, noting that we need accurate member data to process contributions and payments correctly, we are continuously taking steps to review and correct any issues with the member data which is held by the Scheme administrator. The Trustee takes its data seriously and has implemented a Continuous Data Improvement Plan that sets out: clear objectives aimed at improving member data; detailed outputs driven by our obligations to our members; and an operational plan setting out the activities required in order to achieve our objectives.

The latest audit of common data was carried out by Capita in January 2020 and achieved a 97% accuracy score for the data held. The Scheme specific conditional data was audited by Capita in March 2021 and achieved a score of 87%.

We will continue to carry out scheme data audits regularly to ensure our data meets the very high standards to which we aspire.

In order to meet the EU General Data Protection Regulation (or "GDPR"), the Trustee reviewed its controls and those of its suppliers that hold information about you. The Trustee is satisfied that the controls in place meet the GDPR requirements. For more detailed information on how we use and disclose your personal information, the protections we apply, the legal basis for our use of your information and your data protection rights, please visit the Scheme website www.wincantonpensions.co.uk to obtain a copy of the Scheme's privacy notice.

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During the Scheme year there was a cyber security breach which took place at the Scheme’s administration provider Capita. Capita advised that the incident took place on 22 March 2023, and it was reported to the Trustee on 19 May 2023. During the cyber-attack personal data belonging to members of the Scheme was removed from Capita’s servers. The Trustee sent communications to members who were impacted by the incident and provided access to specialist support and advice. The incident was also reported to the Information Commissioners Office and the Pensions Regulator.

Trustee knowledge and understanding

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. Your Trustee Board recognises the importance of having the right mix of skills and competencies amongst the Trustee Directors to ensure that the Scheme is well governed and properly managed and we seek to ensure that new appointees to the Board bring the skills we need. We also recognise that we are responsible for a large, complex and challenging scheme. For all these reasons the Board requires that each Trustee Director demonstrably attain a high standard of relevant knowledge and understanding. Specifically:

- All the Trustee Directors are required to complete the Trustee Toolkit made available by the Pensions Regulator within six months of joining the Board. I confirm that all the Trustee Directors as at 31 March 2023 were completely up to date having completed all the modules of the Toolkit relevant to our Scheme; and
- All Trustee Directors appointed or reappointed to the board after 1 April 2016 are required to complete the Pensions Management Institute’s Award in Pension Trusteeship within 18 months of joining the Board or hold such other relevant professional qualifications as the Board considers appropriate to the role. As of the 31 March 2023 year end four of the six Directors had completed the Award with two further Trustees having been appointed part way through the Scheme year.

The Trustee has access to the services of a range of professional advisers. All Trustee decisions are supported by professional advice where required, and this includes attendance of professional advisers at Trustee meetings. The Trustee’s legal adviser attends each Trustee meeting (supporting a working knowledge of the trust deed and rules and the law relating to pensions and trusts) and the investment adviser attends all Investment Committee meetings (supporting a working knowledge of the relevant principles of funding and investment of occupational pension schemes).

The Board has a policy on Trustee Appointments, Responsibilities and Requirements to help ensure that the Board is fully compliant with the most recent regulations and legislation. In addition, the policy clearly sets out the arrangements on how the Scheme complies with Member Nominated Director (MND) legislation.

All Board members are required to undertake at least 15 hours of additional relevant training each year some of which we provide during Board meetings and some via dedicated Board training away days, often led by one or more of our advisers. We also encourage Trustee Directors to participate in other training events that they believe are relevant to them personally. We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Board and organise training sessions as and when necessary. This training record is reviewed to identify gaps in knowledge and understanding across the Board as a whole. This allows us to work with our professional advisers to fill any gaps.

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In the Scheme year, all Trustee Directors undertook Trustee training within the Scheme year appropriate to the matters being considered by the Scheme. For example, all of the Trustee Directors attended a Trustee training day in February 2023 which included the topics of Pension Dashboard and the Pension Regulators Single Code of Practice. A record of the Trustee Director's training is recorded centrally on a log maintained by the Secretary to the Trustee. At least every three years the Board also carries out an evaluation of its performance and effectiveness measured, in part, against the objectives of the Scheme's business plan.

The combined knowledge and understanding of the Trustee and its advisers enabled the Trustee to properly run the Scheme, in the Scheme year, as follows:

• Trustee Directors are able to challenge and question advisers, committees and other delegates effectively

• Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties

• Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements

As a result of all the training and other developmental activities which have been completed by the Trustee Directors individually and collectively as a Board, and taking in to account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enables us to exercise properly our functions as the Trustee of the Scheme.

Signed: ____________________ **Dated:** 31/10/23 **2023**

Dinesh Visavadia, Independent Trustee Services Limited, Chair, Wincanton plc Pension Scheme

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Appendix A – Statement of Investment Principles (SIP)

1. Introduction

1.1. The Trustee of the Wincanton plc Pension Scheme ("the Scheme") has produced this Statement of Investment Principles ("the Statement") to comply with the requirements of the 1995 Pensions Act ("the Act") and subsequent regulations.

1.2. In preparing this Statement, the Trustee has consulted with the principal employer to the Scheme (Wincanton plc/"the principal employer" and nominated representative of the sponsoring employers) and, under the requirements of the Act, has taken and considered appropriate advice from its professional investment adviser, Mercer.

1.3. The Statement covers the Defined Benefit ("DB") section of the Scheme.

1.4. The Statement sets out the general principles underlying the investment policy. Details of how the policy is implemented are set out in a separate "Investment Policy Implementation Document" ("IPID").

2. Overall Policy and Objectives

2.1. The strategic management of the Scheme's assets is the responsibility of the Trustee acting on expert advice. The day to day management of the Scheme's assets is delegated to independent investment managers who execute the investment strategy. The Trustee is responsible for the appointment and performance monitoring of the investment managers.

2.2. The Trustee's primary objective is to invest the Scheme's assets in the best interests of the members and beneficiaries, and specifically to meet members' benefit obligations in full with as high a level of certainty as possible.

2.3. The Trustee has agreed a long term objective for the Scheme to have sufficient assets to be able to "buy-in" all liabilities in respect of retired members through an insured annuity policy and so that the majority of remaining investment risks can be reduced, with the Scheme being able to run on until further buy-ins are possible with a low probability of requiring additional contributions from the principal employer. This long term "buy-in" basis utilises the same assumptions as the Technical Provisions but with a discount rate equal to the gilt yield curve plus 0.25% per annum.

2.4. The Trustee strives to take full regard of the principal employer's perspectives on investment issues but where there are differences of view the Trustee acts in what it regards as the best interests of the members and beneficiaries.

2.5. Having considered all the risks facing the Scheme including, but not limited to, the strength of the sponsoring employer's covenant, and having taken appropriate advice from the Scheme Actuary, the Trustee has decided that the Scheme's investment strategy should target a return of 1.6% p.a. above a theoretical portfolio of liability matching gilts (net of fees) until March 2021.

The target return is expected to step down over time as follows:

- April 2021 to March 2024: Gilts + 1.2% p.a.
- April 2024 to March 2027: Gilts + 0.8% p.a.
- April 2027 onwards: Gilts + 0.4% p.a.

2.6 In addition, the Trustee has decided to hedge the interest and inflation rate risks facing the Scheme. The target level of interest rate and inflation hedging is 100% of the Scheme's assets.

2.7. The Trustee's objective is to minimise risk in the context of the covenant and within the constraints of the target investment return and Scheme size.

3. Risk

3.1. In deciding to take investment risk relative to the liabilities (i.e. by targeting a return over and above that of a theoretical portfolio of liability-matching gilts), the Trustee has carefully considered the following possible consequences in the context of the Scheme's anticipated lifetime:

i. The assets might not achieve the excess return relative to the liabilities anticipated over the longer term. This could be because the assets fail to deliver the anticipated level of return relative to liabilities, or because the liabilities grow beyond the level expected relative to assets. Failure to achieve the expected excess return would result in the deterioration of the Scheme's financial position and is likely to require the Trustee to continue to place significant reliance on the principal employer's covenant further into the future to ensure that members' benefits can be met in full.

ii. The relative value of the assets and liabilities, and thus the funding level, may be more volatile over the short term than if investment risk had not been taken. This volatility in the relative value of assets and liabilities may also increase the volatility of the principal employer's deficit contributions set at future actuarial valuations.

More detail on the steps the Trustee has taken to manage and mitigate these risks is set out in later sections.

The Trustee monitors the funding level of the Scheme on an ongoing basis and will consider the investment strategy and/or objective should there be a significant change in the financial health of the Scheme. The Trustee has also agreed contingent funding with the principal employer if the funding level deteriorates beyond agreed levels.

3.2. In addition to these primary asset-liability mismatch risks, the Scheme faces a number of other risks, in particular:

i. The risk that may arise from the lack of diversification of investments. The Trustee aims to ensure the asset allocation policy results in an adequately diversified portfolio. The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that suitably diversified investments are held.

ii. The risk introduced by holding securities denominated in foreign currencies, due to movements in exchange rates. The Trustee has carefully considered this risk and more detail on how it is managed is set out in section 6.

iii. The risk arising from hedging the Scheme's interest rate and inflation risk. These risks include the ability to service collateral demands if nominal interest rate expectations increase materially, or inflation expectations fall materially (i.e. real yields rise), counterparty risks, and systemic risks to markets such as gilt repo on which the LDI strategy relies. The Trustee's view is that hedging must go hand in hand with an appropriate reduction in and control of asset risk in the rest of the portfolio to achieve overall investment efficiency. More detail on how the Trustee manages and monitors these risks is set out in Section 5.

iv. The risk associated with holding illiquid assets such as property and private market investments. This is the risk that that an asset cannot easily be sold or exchanged for cash without a substantial loss in value. Illiquid assets may also not be able to be sold quickly because of a lack of ready and willing investors to purchase the asset. The Trustee has carefully considered the Scheme's liquidity requirements, liability hedging strategy and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy. The Trustee monitors the actual exposure to illiquid assets on a regular basis.

v. The risk associated with active investment management. The Trustee may appoint managers that it believes have the skill and judgement to increase returns on a net of fees basis, compared to passive investing. The use of active, rather than passive, management may introduce additional risk. Where active risk is adopted, the Trustee ensures that it is comfortable with this risk in the context of the Scheme's overall investment risk profile. The Trustee regularly monitors the performance of its investment managers and also takes advice in relation to manager performance and prospects.

vi. The risk associated with Environmental, Social and Governance ("ESG"). The risk that ESG issues, including climate change, may have substantive impacts on the global economy and subsequently investment returns. More detail on how these risks are managed and monitored is set out in section 8.

3.3. The Trustee has considered the potential impact of these and other risks over the expected lifetime of the Scheme and acknowledges that they can be financially material to the Scheme.

3.4. The Trustee also takes into consideration non-financial matters when setting the investment objectives and strategy, but members' views on non-financial matters (where non-financial matters includes members' ethical views separate from financial considerations) are not explicitly taken into account in the selection, retention and realisation of investments.

4. Strategic Asset Allocation

4.1. When determining the appropriate mix of assets to achieve the target investment return the Trustee seeks to address and mitigate to the greatest extent possible the risks set out in section 3.

4.2. The strategic asset allocation may include, but is not limited to: developed and emerging market public and private market equity; debt, including emerging market debt, high yield debt, private debt (including corporate, infrastructure and real estate); hedge funds; absolute return funds; property; infrastructure; global multi-asset credit (e.g. loans, asset backed securities, convertible bonds, trade finance); secured finance (e.g. asset backed securities including residential mortgages and commercial real estate lending, collateralized loan obligations); sovereign debt (especially UK fixed interest and index linked gilts); insured annuity policies; cash; equity-based derivatives; interest rate swaps; inflation swaps; total return swaps and sale and repurchase agreements.

4.3. The Trustee considers all of these classes of investment to be suitable given the circumstances of the Scheme. Investment restrictions and freedoms to hold other asset classes have been agreed with the investment managers and are set out in the agreements that the Trustee has with the managers.

4.4. By dynamically allocating assets to a range of asset classes chosen from those outlined above, coupled with the use of active management where appropriate, as well as a buy and maintain approach to corporate bond investments, it is intended that the target return is generated in an efficient manner while also reducing overall levels of risk.

4.5. A liability hedging portfolio (or LDI mandate) is maintained within the asset allocation to reduce the volatility in the Scheme's funding ratio due to changes in interest and inflation rates. The Trustee currently has the objective of hedging 100% of assets and sustaining the hedge at the 100% asset level as the assets grow over time. The LDI portfolio is leveraged and thus requires adequate levels of collateral (see section 5 below). Ensuring sufficient collateral is available is an additional factor in determining the overall asset allocation.

5. Liability Driven Investment

5.1. As described above, the Trustee believes that Liability Driven Investment ("LDI") strategies should be used to reduce risk, especially the risk that the Scheme's liabilities grow faster than its assets. In choosing the target level of hedging, both the risk and return impacts have been taken into account. The Trustee has decided to hedge 100% of the Scheme's assets so as to eliminate, as far as practicable, changes in the funding level driven by changes in interest or inflation rates. Further, to maximise the efficiency of the asset allocation the Trustee has accepted a level of leverage within the LDI portfolio. As set out in section 3, there are risks associated with leveraged LDI.

5.2. The Trustee has considered its tolerance to the risk that collateral could prove to be insufficient. Having taken advice, the Trustee believes the Scheme should target a prudent level of collateral in order to be in a position to deal with sudden increases in gilt yields of at least 2.5% - 3% through existing eligible collateral and/or sales of other assets. The Trustee has agreed appropriate limits on leverage within the Scheme's LDI portfolio (defined as the ratio of liabilities hedged to the LDI portfolio value) and this is monitored by the investment manager on a daily basis and reviewed regularly by the Trustee. In addition, the Trustee will ensure that the non-LDI assets are invested to provide, as far as practicable, adequate liquidity in times of market stress.

5.3. In order to mitigate counterparty risk and systematic risk, the Trustee has set constraints within the Scheme's LDI portfolio with respect to counterparty exposure and derivative usage. The Trustee regularly monitors the investment manager's compliance with these constraints.

6. Currency Hedging

6.1. The Trustee seeks to hedge the majority of its exposure against foreign currency movements. However, with respect to any exposure to emerging market currencies, the Trustee has taken the decision to leave all of the associated currency exposure unhedged. This results from an expectation of long-term appreciation of emerging market currencies against the major developed world currencies, due to expected capital flows following the relatively strong prospects for economic growth of emerging market economies.

7. Day to Day Management of the Assets

7.1. The Trustee has appointed investment managers which it believes to have particular strengths in the management of the various asset classes. The investment managers have full discretion over the day-to-day management of the assets, within predefined boundaries.

7.2. The Trustee objective is that the spread of asset types and the investment managers' policies on investing in individual securities within each asset type will provide adequate diversification of investments such that the asset mix is appropriate for controlling the risks identified in section 3. The Trustee regularly reviews the suitability of these arrangements and of the appointed managers. Following such reviews, the Trustee may from time to time make adjustments to the asset mix, manager line-up and the degree of active management. For some asset classes the hiring, monitoring and firing (if necessary) of investment managers has been delegated to Mercer.

7.3. The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

7.4. Further details of the appointed managers and custodians may be found in the IPID.

8. Responsible Investment and Corporate Governance

8.1. The Trustee believes that Environmental, Social and Governance ("ESG") factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustee has taken into account the expected lifetime of the Scheme when considering how to integrate these issues into the investment decision making process.

8.2. The Trustee has given the appointed investment managers full discretion when evaluating ESG factors, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

8.3. The Trustee considers how ESG, climate change and stewardship is integrated within investment processes and how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes the investment managers' policies on voting and engagement. The Trustee will take this into account in decisions around the selection, retention and removal of managers.

8.4. These issues are monitored by the Trustee, taking account of the investment consultant's analysis of managers' voting records and its assessment of how the fund managers incorporate ESG factors into their processes. Monitoring is undertaken on a regular basis and is documented at least annually.

8.5. The Trustee has not set any investment restrictions for the appointed investment managers in relation to particular products or activities of investee companies but may consider this in future.

9. Investment Manager Appointment, Engagement, and Strategy

9.1. **Aligning manager appointments with investment strategy**

9.1.1. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers in the Mercer Funds (a list of relevant funds used within the Mercer Investment Fund 4 umbrella can be found in the IPID). The relationship with Mercer is outlined in the Engagement Letter dated 16 November 2016 and subsequent amendments.

9.1.2. The other investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics over the long-term (defined as at least three years). The Trustee utilises Mercer's manager research ratings in decisions around the selection, retention and removal of manager appointments. These ratings are based on Mercer's assessment of the manager's idea generation, portfolio construction, implementation and business management.

9.1.3. If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

9.1.4. Some mandates are actively managed, and the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds as part of the wider monitoring of the Scheme's managers.

9.1.5. Where the Scheme's investments are made through pooled investment vehicles, the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be (and are) selected to align with the overall investment strategy.

9.1.6. Where deemed appropriate, investment managers have been appointed to run bespoke mandates, such as the LDI and buy and maintain credit portfolios. In particular, the LDI manager has been appointed to manage the assets in line with a Scheme-specific benchmark based on the underlying liabilities of the Scheme.

9.1.7. The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then it will look to replace the manager. Further details on this are provided below.

9.2. **Evaluating investment manager performance**

9.2.1. The Trustee receives investment manager performance reports from the managers and Mercer on a quarterly basis, which present performance information over 3 month, 1 year, 3 years and since inception periods. The Trustee reviews absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated performance target (over the relevant time period), on a net of fees basis. The Trustee's focus is primarily on long term performance (i.e. three years or longer) but short term performance is also reviewed.

9.2.2. The Trustee also receives a more detailed annual report from Mercer which contains key performance statistics on each of the managers, peer group comparisons and long-term (three year or since inception) performance commentary.

9.2.3. If a manager is not meeting performance objectives over the long-term, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees instead of terminating the appointment.

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9.3. **Portfolio turnover costs**

9.3.1. The Trustee receives MiFID II reporting from their investment managers and Mercer (where applicable).

9.3.2. The Trustee engages with the credit investment managers to include portfolio turnover and turnover costs in their presentations and reports where applicable. The Trustee will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover across the same asset class on a quarterly basis and relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus.

9.3.3. The Trustee does not explicitly monitor portfolio turnover costs across the whole portfolio, but this is considered indirectly by Mercer when forming a research view for a particular strategy.

9.4. **Manager turnover**

9.4.1. The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

9.4.2. For open-ended funds, the Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate;

9.4.3. For closed-ended funds (private markets, secured finance, real estate debt), the Scheme is invested for the lifetime of the fund. At the time of appointment, the Trustee receives an indication of the expected investment duration of their funds. In order to maintain a strategic allocation to these asset classes, the Trustee may choose to stay with the manager in a new closed fund (if available) for that asset class or appoint a different manager.

10. Review of this Statement

10.1. The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee which they judge to have a bearing on the stated investment policy.

10.2. This review will occur no less frequently than every three years, normally following a triennial actuarial valuation.

July 2020

10th August 2020

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Signed Dinesh Visavadia –
ITS Director

Date

For and on behalf of Wincanton Pension Scheme Trustees Limited