

**FM Insurance Company Limited Pension Fund  
and Life Assurance Scheme  
(the Scheme)**

**DEFINED CONTRIBUTION (DC) ARRANGEMENT**

**Annual governance statement by the Chair of Trustees for the year ended  
31 December 2023**

**Introduction**

Governance standards apply to pension schemes which include defined contribution (DC) pension arrangements. These standards are designed to help members achieve a good outcome from their retirement savings.

As Chair of the Trustees of the Scheme, I must provide you with a yearly statement which explains what steps the Trustees, with guidance from our professional advisers, have taken to meet these standards. The information included in my statement is set out in law and regulation. This statement covers the period from 1 January 2023 to 31 December 2023 and will be published on a publicly available website <https://fminsurancensionscheme.info/>.

Although the Scheme is predominantly a defined benefit (DB) scheme, some members have DC retirement savings, usually as the result of making Additional Voluntary Contributions (AVCs) to the Scheme invested in funds managed by Standard Life. With effect from 31 March 2020, due to increased governance requirements and costs, coupled with a low active membership take up rate, the Principal Employer (in consultation with the Trustees) decided to close the DC arrangement to new members and the Trustees decided not to allow members to transfer in DC retirement savings from other pension arrangements.

The DC funds can be used as part of the pension commencement lump sum associated with members' DB pensions. However, the DC arrangement is not being used as the relevant qualifying scheme for any members for the purposes of automatic enrolment. As a result, the Trustees have applied a proportionate approach to meeting the relevant governance standards.

I welcome this opportunity to explain what the Trustees do to help to ensure the DC arrangement within the Scheme is run effectively. If you have any questions about anything that is set out below, please contact the Secretary to the Trustees at [sue.curley@buck.com](mailto:sue.curley@buck.com).

**Lisa Coskun, Chair of the Trustees  
FM Insurance Company Limited Pension Fund and Life Assurance Scheme**

Date: 31 July 2024

## INVESTMENT CHOICES, INCLUDING DEFAULT ARRANGEMENTS

The Trustees are responsible for investment governance. This includes having a good working knowledge of investment matters relating to the Scheme and ensuring an appropriate choice of funds for the members in the DC arrangement within the Scheme.

The Trustees take professional advice from regulated investment advisers and have appointed fund managers to manage any DC funds.

Further details of the basis on which the Trustees invest members' assets within the Scheme are recorded in the Statement of Investment Principles ("SIP") and the Investment Policy Implementation Document ("IPID"). The Trustees set out details of the Scheme's investment arrangements in the IPID based on the principles set out in its SIP. The SIP along with the IPID were updated in October 2023, to reflect the Scheme's revised strategy for its DB investments.

A copy of the SIP and the IPID is available at: <https://fminsurancepensionscheme.info/> and a copy of the latest SIP is attached to this statement as the Appendix.

### Reviewing the default investment choices

Trustees are typically expected to review the strategy and objectives of the default investment strategy regularly and consider the needs of the membership when designing it.

For the first time, trustees are also required to include in the Chair's Statement the percentage of assets in the default arrangement allocated to various types of asset class at different ages, as specified in legislation. This is to improve transparency so that members have access to all relevant information surrounding the investments being made with their pension savings and the outcomes these investments could have on their future retirement.

However, there is no default investment strategy in the DC arrangement within the Scheme (for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015), because this arrangement is not used as a qualifying scheme for automatic enrolment purposes. As a result, no default investment strategy review was undertaken for the DC arrangement during the Scheme year and there is no planned future date for such a review.

### Self-select investment choices

The Trustees perform an in-depth review on the investment funds available every three years. In 2022, the Trustees undertook a strategic review to amend the number of core funds available to Scheme members, taking into consideration the range of funds available from Standard Life, the range of asset classes members might expect to be able to access, current member investments, and Environmental Social and Governance considerations.

The updated range comprises funds which cover a range of asset classes, while ensuring the fees being charged for these are appropriate. This change brings the approach more into line with that of other pension schemes, and, by reducing the available range makes investment choices easier for the membership as a whole.

The changes came into effect in October 2022 and the new range can be seen below:

Asset Class	Asset Class
Equities	SL BlackRock (iShares) UK Equity Fund
	SL BlackRock ACS World ex UK Equity Tracker Fund
	SL BlackRock ACS World ESG Equity Tracker Fund
	SL HSBC Islamic Global Equity Index Fund
	SL BNY Mellon Global Equity Pension Fund
	SL iShares Emerging Markets Equity Index Pension Fund
Multi-asset funds	Schroder Life Intermediated Diversified Growth Fund

Asset Class	Asset Class
	Standard Life Managed Fund
	Standard Life Multi Asset Managed (20-60% Shares) Fund
Property	Standard Life Property Fund
Bonds	SL BlackRock (iShares) Corporate Bond Index Fund
	SL BlackRock (iShares) Over 15 Year Gilt Index Fund
	SL BlackRock (iShares) Index Linked Gilt Index Fund
	Standard Life Mixed Bond Fund
Money Market	Standard Life Money Market Fund

Members may wish to take independent financial advice before choosing funds.

In selecting this range of funds the Trustees have taken advice from their professional advisers (Gallagher) on:

- the risks faced by members in investing on a money purchase basis,
- considerations around the range of funds that should be offered, such as the number of funds and the asset classes covered,
- the suitability and performance potential of the funds made available by Standard Life in the context of fees and value for money, and
- the Trustees' responsibilities in the selection and monitoring of the investment options offered.

The above range of funds was agreed by the Trustees following a review exercise undertaken in 2022. The agreed approach involves members who were previously invested in funds not included within this range (and who do not opt to make an alternative choice themselves) being automatically switched into either the BlackRock ACS World ex UK Equity Tracker Fund (in most cases) or the Standard Life Money Market Fund (in cases where funds held previously were predominantly lower risk in nature). The Trustees considered the following when choosing these as funds for affected members:

- the risk and return characteristics of the funds and hence their likely suitability for members,
- the previous fund choices made by members,
- the ongoing charges applicable for these funds, and
- governance and oversight requirements.

The objective of the main fund chosen (the BlackRock ACS World ex UK Equity Tracker Fund) is to provide a suitable level of return (net of fees) for a member over the course of their working lifetime, in a suitably diversified manner.

The objective of the other fund chosen (the Standard Life Money Market Fund) is to provide a stable, low risk investment where members' assets can be held on a temporary basis. Members being switched to this option were informed that this was intended as a temporary holding only and were encouraged to make an alternative choice as appropriate to better suit their individual longer term needs.

Whilst the Trustees believe the options chosen are likely to be reasonable choices for members who are put into them, ultimately each member should take into account their own personal circumstances when determining whether this option or an alternative strategy would best meet their needs. Member communications sent at the time of the fund range changes highlighted this and provided members with the option to take alternative action, should a different fund better suit their needs. Members were also advised to take independent financial advice as required.

## CHARGES AND TRANSACTION COSTS PAID BY MEMBERS

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) in the Scheme that are paid by members rather than the employer. In the Scheme, members typically pay for the provider administration costs, investment management and investment transactions in respect of the DC arrangement, while the employer pays all the other costs of running the Scheme such as wider investment support and governance.

The investment management and transaction costs can be explained as follows:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges).
- Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments *within* each fund. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and the costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges, the reported performance of the fund is typically net of these transaction costs.
- In addition, there can be switching costs occurred as a result of the buying and selling of funds. This may relate either to member-driven trades (e.g. a self-select member switching their investment arrangements) or to automatic trades (e.g. those associated with fund switches resulting from progression along a lifestyle glidepath). These costs relate to the difference between the fund price used to place the trade and the price which would have applied to that fund on that day had the trade not been placed. These are implicit costs which are not typically visible to members.

Members receive discounts to their total annual fund charge depending on their individual circumstances. Members who joined the Scheme after 1 January 2012 receive a discount of 0.62% per annum from their investment fund's standard Fund Management Charge.

The discounts for members who joined the Scheme before 1 January 2012 vary according to whether they have had a transfer in only (a discount of 0.35% p.a. applies), no transfer in (a discount of 0.62% p.a. applies) or a transfer in and regular contributions (a discount of between 0.35% p.a. and 0.62% p.a. applies depending on the size of the transfer).

The Trustees have provided details on the ongoing charges (assuming a Scheme discount of 0.62% has been applied) and transaction costs, as confirmed by Standard Life, applicable to the new fund range available from October 2022 onwards, set out below:

	Total charges		Transaction costs for the period 1 January 2023 to 31 December 2023	
	% p.a. per the amount invested	£ p.a. per £1,000 invested	% p.a. per the amount invested	£ p.a. per £1,000 invested
<b>SL BlackRock (iShares) UK Equity Index Fund</b>	0.39%	£3.90	0.04%	£0.40
<b>SL BlackRock ACS World ex UK Equity Tracker Fund</b>	0.39%	£3.90	0.01%	£0.10
<b>SL BlackRock ACS World ESG Equity Tracker Fund</b>	0.48%	£4.80	0.07%	£0.70
<b>SL HSBC Islamic Global Equity Index Fund</b>	0.68%	£6.80	0.00%	£0.00
<b>SL BNY Mellon Global Equity Pension Fund</b>	0.80%	£8.00	0.23%	£2.30
<b>SL iShares Emerging Markets Equity Index Pension Fund</b>	0.58%	£5.80	0.06%	£0.60
<b>Schroder Life Intermediated Diversified Growth Fund</b>	0.99%	£9.90	0.39%	£3.90
<b>Standard Life Managed Fund</b>	0.40%	£4.00	0.15%	£1.50
<b>Standard Life Multi Asset Managed (20-60% Shares) Fund</b>	0.40%	£4.00	0.15%	£1.50
<b>Standard Life Property Fund</b>	0.41%	£4.10	0.23%	£2.30
<b>SL BlackRock (iShares) Corporate Bond Index Fund</b>	0.39%	£3.90	*	*
<b>SL BlackRock (iShares) Over 15 Year Gilt Index Fund</b>	0.39%	£3.90	0.03%	£0.03
<b>SL BlackRock (iShares) Index Linked Gilt Index Fund</b>	0.39%	£3.90	0.15%	£1.50
<b>Standard Life Mixed Bond Fund</b>	0.39%	£3.90	0.11%	£1.10
<b>Standard Life Money Market Fund</b>	0.39%	£3.90	0.00%	£0.00

\*No details available from Standard Life

In terms of switching costs, the funds used by the Scheme operate on a single-swinging price basis with no explicit switching costs charged to members. However, members may experience implicit switching costs whenever assets are sold.

These costs will vary between members depending on what switches took place for each member and the date at which these occurred. The Trustees are not able to track what costs have been incurred in practice for particular members.

#### **Completeness of transaction cost information**

Where information about the member costs and charges is not available, the Trustees have to make this clear to members together with an explanation of what steps are being taken to obtain the missing information.

Please note that Standard Life have confirmed that transaction cost data was not available for SL BlackRock (iShares) Corporate Bond Index Fund. Currently no members are invested in this fund. The Trustees are discussing with the managers their ability to provide complete information for these funds in future.

It should be noted that the transaction costs (and therefore the 'total' charges above) are likely to vary from fund to fund and from year to year.

**Examples of the impact of costs and charges**

The Trustees are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on the value of a member's savings.

Standard Life have prepared the following examples, having taken account of the statutory guidance issued by the Department of Work and Pensions<sup>1</sup>.

<b>Projected pension pot in today's money</b>						
Fund choice						
SL BNY Mellon Global Equity Pension Fund		SL BlackRock ACS World ex UK Equity Tracker Fund		Standard Life Money Market Pension Fund		
Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		
Year	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£
1	£12,700	£12,600	£12,600	£12,600	£12,400	£12,400
3	£13,400	£13,000	£13,400	£13,300	£12,600	£12,500
5	£14,200	£13,500	£14,200	£13,900	£12,900	£12,700
10	£16,500	£14,800	£16,400	£15,700	£13,600	£13,000
NRD	£17,900	£15,600	£17,900	£16,900	£14,000	£13,200

Source: Standard Life

**Notes**

1. Values shown are estimates and are not guaranteed, the actual fund values could be higher or lower.
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
3. Inflation is assumed to be 2.0% each year.
4. No future contributions have been included as would be the case for a deferred member of the Scheme.
5. The starting pot size is assumed to be £12,377 and the projection assumes a starting age of 52 which is the age of a typical member based on the current membership within the DC arrangement.
6. NRD is age 65.
7. The assumed projected growth rates before expenses from the funds are as follows:  
 SL BNY Mellon Global Equity Pension Fund (the highest charging fund used by members): 5.00%  
 SL BlackRock ACS World ex UK Equity Tracker Pension Fund (the most popular fund used by members): 5.00%  
 Standard Life Money Market Pension Fund (the lowest charging fund used by members): 3.00%

<sup>1</sup> <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

**Past performance of the investment options**

Standard Life have calculated the return on investments (after the deduction of any charges and transaction costs paid for by the members) for each of the self-select funds currently selected by members. They have prepared the following tables, having taken account of the statutory guidance issued by the Department of Work and Pensions.

The net returns to 31 December 2023 are shown in the table below and have been included to help members understand how their investments are performing. Please note that past performance is no indicator of future performance.

Annualised net returns (%) for the core funds over periods to 31 December 2023

	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>	<b>15 years</b>	<b>20 years</b>
	31/12/2022 to 31/12/2023	31/12/2018 to 31/12/2023	31/12/2013 to 31/12/2023	31/12/2008 to 31/12/2023	31/12/2003 to 31/12/2023
<b>Name</b>	(%)	(% pa)	(% pa)	(% pa)	(% pa)
SL BlackRock ACS World ex UK Equity Tracker Pension Fund	17.79	12.65	11.54	11.58	n/a*
Standard Life Managed Pension Fund	6.74	5.57	5.05	7.03	6.55
Standard Life Money Market Pension Fund	4.13	0.83	0.40	0.69	1.41
Standard Life Multi Asset Managed (20-60% Shares) Pension Fund	5.00	2.96	3.61	5.34	5.45
Standard Life Property Pension Fund	4.07	0.56	3.61	4.12	3.62
Standard Life Mixed Bond Pension Fund	6.64	-1.35	1.59	3.03	3.45
SL iShares Index Linked Gilt Index Pension Fund	-0.58	-5.63	1.21	3.12	n/a*
SL BNY Mellon Global Equity Pension Fund	17.34	11.27	10.22	10.67	n/a*
SL iShares UK Equity Index Pension Fund	7.48	5.91	4.59	7.56	n/a*
SL iShares Emerging Markets Equity Index Pension Fund	1.13	3.27	4.82	n/a*	n/a*

	1 year	5 years	10 years	15 years	20 years
	31/12/2022 to 31/12/2023	31/12/2018 to 31/12/2023	31/12/2013 to 31/12/2023	31/12/2008 to 31/12/2023	31/12/2003 to 31/12/2023
<b>Name</b>	(%)	(% pa)	(% pa)	(% pa)	(% pa)
SL HSBC Islamic Global Equity Index Pension Fund	26.27	15.89	13.56	12.46	n/a*
SL BlackRock ACS World ESG Equity Tracker Pension Fund	15.60	n/a*	n/a*	n/a*	n/a*
SL iShares Over 15 Year Gilt Index Pension Fund	0.83	-7.05	0.37	1.70	n/a*

Source: Standard Life.

**Notes:**

1. All returns shown are cumulative performance using an annual geometric average, with gross income reinvested unless otherwise stated.
2. Fund returns are net of all transaction costs and charges, adjusted for any scheme specific rebates or employer variations.
3. Fund returns noted as "n/a" indicate where fund performance is not available for the specified performance period. This is typically as a result of the fund launching during the specified performance period.
4. These figures are based on performance figures as at 17 April 2024.
5. Remember that past performance is not a guide to future returns.

The charging structure applicable to Standard Life's funds mean that the above Net Investment Returns are applicable to a saving profile of a one off lump sum of £10,000 (as suggested in the guidance) as well as any other premium variations, and do not vary by member age.

**CORE FINANCIAL TRANSACTIONS**

The Trustees are required to report to members about the processes and controls in place in relation to core financial transactions. The law specifies that these include the following:

- Investing contributions that are paid in by members;
- Transferring assets relating to members into and 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 Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice responsibility for this is delegated to Standard Life. This administration service includes key financial tasks such as keeping track of changes in members' circumstances and arranging switching and disinvestments of investments.

Standard Life is required to carry out services in accordance with good industry practice to ensure transactions are carried out in a timely and effective manner. They aim to complete 90% of all requests within 10 working days.

Any mistakes or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

In the previous statement the Trustees reported that an error by Standard Life had been detected, whereby the charges applied to some members' AVC accounts were too high. The ongoing charges are correct for members. The error has been investigated and corrective work is underway by Standard Life to rectify the situation for those affected.

There were no other issues or concerns raised during the scheme year in relation to the administration or the core financial transactions of the Scheme. The Trustees remain confident that the overall 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 properly.

## TRUSTEE KNOWLEDGE AND UNDERSTANDING

The law requires the Trustees to be conversant with the Scheme's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Scheme effectively.

The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustees' current policies. They are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustees do this by regularly reviewing the relevant Scheme documents and during the Scheme year have sought advice from the Scheme's legal advisers on the powers of the Trustees and Principal Employer under the trust deed and rules.

The Trustees take their training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

During the Scheme year the following training and development activities have taken place:

- The training record is reviewed annually to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. The training carried out during the Scheme year was:

Area	Provider - Subject Matter
Actuarial	WTW - Valuation Assumptions
Investment	LCP - Responsible investment
Actuarial	WTW – Hot Topics
Investment	LCP – Investment Updates
Administration	Buck – Budget Changes
Administration	Buck – Pensions Dashboards
Investment	LCP – Investment Strategies
Investment	LCP – Pension Industry Developments
Legal	Stephenson Harwood – Change of Principal Employer

Actuarial	WTW – Factor Review
Actuarial	WTW – Actuarial Valuation

- All of the Trustees have completed The Pensions Regulator’s on-line trustee toolkit. New trustees have completed the toolkit within 6 months of becoming a member of the Trustee Board, as required. Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.
- The Trustees receive “on-the-job” training. This means that as new topics arise the professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests, as well as training during the meeting so that the Trustees may engage on such topics in an informed manner.
- The Trustees have assessed the Defined Contribution Section against the standards set out in the code of practice for trustees of pension schemes providing money purchase benefits (the DC code in force until 28 March 2024) and related guides and have established an action plan to ensure we can demonstrate that they are offering a quality scheme. Since 28 March 2024, the Trustees have taken account of the similar expectations set out in the general code of practice.
- Relevant advisers attend meetings and are in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

The Trustees meet all the knowledge and understanding requirements and understand the Scheme and its documents.

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

## ASSESSING VALUE FOR MEMBERS

As part of the assessment of the charges and transaction costs, the Trustees are required to consider the extent to which member-borne costs and charges within the DC arrangement represent good value for members when this is compared to other options available in the market.

This section sets out in more detail the approach that the Trustees have taken and an explanation of how and why they have reached the conclusion and actions above.

### **Categorising costs/charges and how these impact on our assessment**

There is no legal definition of ‘good value’ and so the process of determining good value for members is a subjective one. The Trustees note that value for members does not necessarily mean the lowest fee and the overall quality of the service received has been taken into account in the assessment of value to members.

In line with the Trustees’ legal duties and guidance issued by The Pensions Regulator, the first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Trustees or Principal Employer.

The charges paid by members with DC funds comprise not only fund management charges and transaction costs for the investment funds used but also cover the costs of the services provided to members by Standard Life, including services such as:

- The costs of reviewing and updating funds available to members on their platforms.

- Administration costs for the providers (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, etc.).
- Member communications (e.g. the costs of producing and issuing annual benefit statements, etc.).

However, for all other Scheme costs and charges, the Principal Employer bears the full cost, covering such areas as:

- Wider investment support and governance (e.g. the costs of reviewing the DC provider, etc.).
- Administration of the Scheme (e.g. the costs of updating and maintaining overall member records, dealing with member queries, etc.).
- Member communications (e.g. the costs of producing and issuing member booklets, etc.).
- The management and governance of the Scheme (e.g. the expenses of the Trustees, the costs of professional advisers).

For the DC arrangement, the Trustees have applied a proportionate approach to assessing value for members given the significance of the value of these DC funds relative to their overall benefits in the Scheme.

#### **The Trustees' overall approach**

Assisted by the Trustees' advisers and in line with The Pensions Regulator's guidance, the Trustees have taken the following approach:

1. Collated information on services that members receive and the total costs that members pay including transaction costs (where available).
2. Assessed the scope and quality of the services that members receive from Standard Life.
3. Compared the value that members receive from the services against the cost of those services, on the value for member basis required by legislation (i.e. ignoring the wider elements of value that members receive as a result of costs paid by the participating employers).
4. Reflected on the key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that the Trustees are comparing the level of charges in each fund with the levels of return they have delivered to members, as well as comparing the costs of membership (i.e. the charges) against the benefits of membership (i.e. the services provided by the Scheme).

In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of its advisers.

#### **Preparation for the assessment**

The Trustees received support from advisers around how to undertake a value for member assessment and also considered the statutory guidance.

In particular, the size of the DC funds relative to the quantum of DB savings for the members, plus the fact that the DC arrangement is not being used as the relevant qualifying scheme for any members for the purposes of automatic enrolment, meant that a high level assessment would be used, which would be of a smaller scale than if any of the arrangements had been a stand-alone DC section.

#### **Process followed for the assessment, including key factors considered**

The Trustees, assisted by their advisers, performed a high-level review of the arrangements with Standard Life against other DC arrangements available in the

market, particularly other DC arrangements with Standard Life known to the Trustees and their advisers.

The Trustees considered the following:

- The ways that members can access their DC funds at retirement and how this compares to other options available in the market.
- The fund choices available and the level of engagement of members with their DC funds, as evidenced by the level of use of the core funds or the proportion of members who self-selected their funds.
- The level of charges paid on DC funds.

#### **Explanation of the results**

The Trustees' conclusion that the DC arrangement with Standard Life offers satisfactory value for members over the year to 31 December 2023 is based on:

- Members being able to use their DC funds as part of the pension commencement lump sum associated with their DB pensions.
- Members with DC funds exhibiting a high level of engagement (as evidenced by relatively high levels of members self-selecting investment funds).
- Charges being low when compared to other DC arrangements with Standard Life, due to the presence of discounts being applied to the standard charges.

#### **Steps taken to improve value for members during the Scheme year**

During the Scheme year, the Trustees took the following steps to improve value for members:

- The Trustees have an annual oversight of the core financial transactions of the AVC arrangements.
- Liaising with Standard Life to ensure that complete and accurate disclosure of charges and transaction costs is provided, in line with FCA rules;
- Continuing to monitor Scheme fund performance, suitability and charges;
- Monitoring the usage of the DC funds through the annual Scheme data sheet and reports provided by Standard Life; and
- Working with Standard Life to understand the cause and impact of their error in relation to the Scheme charges, and agreeing a suitable rectification process.

The Trustees have not communicated with members during the Scheme year around reviewing their AVC funds and this action will be considered in the new Scheme year.

#### **Follow-on actions**

Over the year to 31 December 2024, the Trustees plan the following:

- Ensure Standard Life complete suitable rectification in relation to the Scheme charging errors;
- Further Trustee training to continue the development of Trustee knowledge and understanding
- Continue to monitor the usage of the DC funds through the annual Scheme data sheet and report provided by Standard Life;
- Monitor developments in ESG considerations;
- Consider communicating with members around reviewing their AVC funds to ensure that their choices and investment funds etc remain appropriate for their circumstances; and
- Continue to monitor and review Scheme fund performance, suitability and charges.

# *Statement of Investment Principles for the FM Insurance Company Limited Pension Fund and Life Assurance Scheme*

## **1. Introduction**

This Statement of Investment Principles ("SIP") sets out the policy of the Trustees of the FM Insurance Company Limited Pension Fund and Life Assurance Scheme ("the Trustees") on various matters governing decisions about the investments of the FM Insurance Company Limited Pension Fund and Life Assurance Scheme ("the Scheme"), a Defined Benefit ("DB") Scheme. This SIP replaces the previous SIP dated September 2022.

The SIP is designed to meet the requirements of Section 35 (as amended) of the Pensions Act 1995 ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 and the Pension Regulator's guidance for defined benefit pension schemes (March 2017). The SIP also reflects the Trustees' response to the Myners voluntary code of investment principles.

This SIP has been prepared after obtaining and considering written professional advice from LCP, the Scheme's investment adviser, whom the Trustees believe to be suitably qualified and experienced to provide such advice. The advice takes into account the suitability of investments, including the need for diversification given the circumstances of the Scheme, and the principles contained in this SIP. The Trustees have consulted with the employer in producing this SIP.

The Trustees will review this SIP from time to time and, with the help of their advisers, will amend it as appropriate. These reviews will take place as soon as practicable after any significant change in investment policy, or in the demographic profile of the relevant members, and at least once every three years.

## **2. Investment objectives**

The Trustees' main objectives with regard to the Scheme's investment policy are:

- to achieve, over the long term, a return on the Scheme's assets which is consistent with the assumptions made by the Scheme Actuary in determining the funding of the Scheme;
- to be fully funded on a technical provisions basis (ie the asset value should be at least that of its liabilities on this basis);
- to ensure that sufficient liquid assets are available to meet benefit payments as they fall due; and
- to consider the interests of the Company in relation to the size and volatility of the Company's contribution requirements.

The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Scheme. The Trustees understand, following discussions with the Company, that it is willing to accept some degree of volatility in the Company's contribution requirements in order to reduce the long-term cost of the Scheme's benefits.

### 3. Investment strategy

The Trustees, with the help of their advisers and in consultation with the employers, reviewed the investment strategy and finalised the revised investment strategy in June 2022, taking into account the objectives described in Section 2 above.

The result of the review was that the Trustees agreed that the investment strategy of the Scheme should be based on the allocations below:

Asset class	Strategic asset allocation
Return-seeking assets	66%
Defensive assets	34%
<b>Total</b>	<b>100%</b>

The Trustees monitor the Scheme's actual asset allocation on a regular basis and will decide on a course of action, which may involve redirecting cashflows, a switch of assets, or taking no action, taking into account advice from the Scheme's investment consultant.

### 4. Considerations in setting the investment arrangements

When deciding how to invest the Scheme's assets, the Trustees consider a number of risks. Some of these risks are more quantifiable than others, but the Trustees have tried to allow for the relative importance and magnitude of each risk.

The Trustees considered a wide range of asset classes for investment, taking account of the expected returns and key individual risks associated with those asset classes as well as how these risks can be mitigated where appropriate. The key financial assumption made by the Trustees in determining the investment arrangements is that equity-type investments will, over the long term, outperform gilts by 3.8% pa.

In setting the strategy for the Scheme, the Trustees also took into account:

- the Scheme's investment objectives, including the target return required to meet the Trustees' investment objectives;
- the Scheme's cash flow requirements in order to meet benefit payments in the near to medium term;
- the best interests of all members and beneficiaries;
- the circumstances of the Scheme, including the profile of the benefit cash flows (and the ability to meet these in the near to medium term), the funding level, and the strength of the employer covenant;
- the risks, rewards and suitability of a number of possible asset classes and investment strategies and whether the return expected for taking any given investment risk is considered sufficient given the risk being taken;
- the need for appropriate diversification between different asset classes to ensure that both the Scheme's overall level of investment risk and the balance of individual asset risks are appropriate; and

- the Trustees' key investment beliefs about how investment markets work and which factors are most likely to impact investment outcomes.

Some of the Trustees' key investment beliefs are set out below.

- asset allocation is the primary driver of long-term returns;
- risk-taking is necessary to achieve return, but not all risks are rewarded;
- risks that are typically not rewarded, such as interest rate, inflation and currency, should generally be avoided, hedged or diversified;
- investment markets are not always efficient and there may be opportunities for good active managers to add value;
- investment managers who can consistently spot and profitably exploit market opportunities are difficult to find and therefore passive<sup>1</sup> management, where available, is usually better value; and
- costs have a significant impact on long-term performance and therefore obtaining value for money from the investments is important.

The Trustees believe environmental, social and governance (ESG) factors are likely to be one area of market inefficiency and so managers may be able to improve risk-adjusted returns by taking account of ESG factors. Long-term environmental, social and economic sustainability is one factor that Trustees consider when making investment decisions.

## 5. Implementation of the investment arrangements

Before investing in any manner, the Trustees obtain and consider proper written advice from their investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

The Trustees have signed agreements with the investment managers setting out the terms on which the portfolios are to be managed. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustees and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustees have limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees' view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

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<sup>1</sup> Passive management includes a range of rules-based portfolio construction strategies

It is the Trustees' responsibility to ensure that the managers' investment approaches are consistent with their policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustees expect investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. They assess this when selecting and monitoring managers.

The Trustees evaluate investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustees would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustees' policy is to evaluate each of their investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustees recognise that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustees expect their investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

## **6. Realisation of investments**

The investment managers have discretion over the timing of realisation of investments of the Scheme within the portfolios that they manage, and in considerations relating to the liquidity of investments. When appropriate, the Trustees, on the administrators' recommendation, will decide on the amount of cash required for benefit payments and other outgoings and inform the investment managers of any liquidity requirements.

## **7. Social, environmental and ethical considerations**

The Trustees have considered how environmental, social, governance ("ESG") and ethical factors should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustees expect their investment managers to take account of financially material considerations (including climate change and other ESG considerations). The Trustees seek to appoint managers that have appropriate skills and processes to do this, and from time to time review how their managers are taking account of these issues in practice.

The Trustees have limited influence over managers' practices on the inclusion of financially material considerations in the investment process where assets are held in pooled funds, but they encourage their managers to improve their practices where appropriate.

The Trustees do not take into account any non-financial matters (ie matters relating to ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

## 8. Exercise of investment rights

The Trustees recognise their responsibilities as owners of capital, and believe that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments.

The Trustees have delegated to their investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations. They expect the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustees from time to time, taking into account the long-term financial interests of the beneficiaries. The Trustees do not monitor or engage directly with issuers or other holders of debt or equity.

The Trustees monitor managers' activities in relation to ESG factors, voting and engagement from time to time. The Trustees seek to understand how they are implementing their stewardship policies in practice to check that their stewardship is effective and aligned with expectations. The Trustees have selected ESG themes to provide a focus for the monitoring of investment managers' voting and engagement activities. The Trustees communicate these stewardship priorities to their managers.

If the monitoring identifies areas of concern, the Trustees will engage with the relevant manager to encourage improvements.

The Trustees seek to appoint managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustees review how these are implemented in practice.

**Approved by the Trustees of the FM Insurance Company Limited Pension Fund and Life Assurance Scheme on 6 October 2023**