

## Morgan Stanley UK Group Top-Up Pension Plan (the 'Plan')

### Annual statement regarding governance

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The Trustee of the Morgan Stanley UK Group Top-Up Pension Plan (the 'Plan') is pleased to present this Statement on governance covering the year to 31 December 2020.

This Statement explains how the Plan meets its legal requirements in a number of key areas and details:

- the current default investment strategy;
- how the Trustee has ensured that core financial transactions have been processed promptly and accurately;
- the report on the charges and transaction costs for the investments used in the default and self-select arrangements and the extent to which the charges and costs represent good value for members; and
- how the combined knowledge and understanding of the Trustee and its advisers enables the Trustee to properly run the Plan.

This Statement is published on a publicly available website at <http://www.morganstanley.com/disclosures/the-morgan-stanley-uk-group-pension-plan/> and will be signposted in the annual benefit statements.

Preparing this Statement is a requirement under legislation set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by The Occupational Pension Schemes (Charges and Governance) Regulations 2015.

#### **The default investment arrangement**

A default arrangement is the investment fund or funds into which pension contributions are paid where members have not made their own choice (self-selection) as to where they want to invest their pension savings.

The current default arrangement for the Plan is the Diversified Default Option ('DDO').

The DDO is a form of lifestyle strategy. Lifestyle strategies are designed to meet the conflicting objectives of maximising the value of a member's assets at retirement and protecting their accumulated assets in the years approaching retirement.

The DDO attempts to achieve these objectives by varying the mix of assets over a member's working life using a combination of the following three funds: Active Diversified Growth Fund, Active Diversified Retirement Fund and Cash Fund.

Contributions are invested in the Active Diversified Growth Fund until a member reaches the age of 50. From this time onwards, a proportion of each member's accumulated assets are switched into the Active Diversified Retirement Fund each quarter and then also the Cash Fund from age 55. The final allocation at age 65 is a 75% allocation to the Active Diversified Retirement Fund and a 25% allocation to the Cash Fund. If a member continues in the Plan past age 65, without taking retirement, then the allocation will periodically be re-balanced in line with the 75%/25% split.

The Trustee recognises that this will not be appropriate for all members and therefore makes available a range of self-select funds, and encourages members to make their own investment decisions.

#### **The most recent review of the investment arrangements**

A formal comprehensive review of the default arrangement, the Diversified Default Option, is currently being undertaken by the Trustee. This was initiated in May 2020 with consideration of the growth phase of the strategy. The review is ongoing and will encompass all aspects of the default strategy. In particular, it will include a review of the ongoing appropriateness of the strategy

based on member analysis. To date, as a result of this review, two underlying managers have been replaced.

In addition to the strategy review, the Trustee also reviews the performance of the default arrangement against their aims, objectives and policies on a quarterly basis. This review covers a number of areas and is not limited to an analysis of fund. This is to check that the risk and return levels meet expectations. The Trustee's reviews that took place during the Scheme year concluded that the default arrangement(s) were performing broadly as expected and are consistent with the aims and objectives of the default as stated in the SIP.

In March 2020, the Trustee agreed to restructure the Active Emerging Markets Equity fund, one of the funds available for members on a self-select basis. The Trustee reviewed this fund as part of their broader oversight responsibilities, and made the change due to concern over the performance of the previous underlying fund manager. This change was implemented in June 2020, with Stewart Investors Global Emerging Markets Leaders being replaced by Sands Capital Emerging Markets Growth. After the June and July 2020 meetings, which included review of alternative strategies, the Committee agreed that Nordea 15 Alpha Strategies and Ruffer Total Return International should replace GMO Global Real Return and JP Morgan Life Diversified Alternative Beta in the Active Absolute Return Fund. The fund is available as a self-select fund and is also a component of both the Active Diversified Growth Fund and the Active Diversified Retirement Fund (which are part of the DDO). In August 2020, the Active Absolute Return Fund switched to 100% ASI GARS as an interim measure, with the transition completed in January 2021.

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the Statement of Investment Principles ('SIP'). This has been prepared for the Plan under Section 35 of the Pensions Act 1995 (the '1995 Act') and

Regulation 2 and Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

## Core financial transactions

As required by regulation 24 of the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately; this includes:

- Investment of contributions paid to the Plan;
- Transfers of members' assets into and out of the Plan;
- Transfers of members' assets between different investment options available in the Plan; and
- Payments from the Plan to, or in respect of, members.

The requirements of regulations have been met and core financial transactions have been processed promptly and accurately by:

- Maintaining a Risk Register, which outlines risks in relation to processing core financial transactions. The Plan's Risk Register outlines all of the risks to Plan members and these are monitored and reviewed on an annual basis.
- Appointing Capita Employee Solutions ("Capita") as the Plan's professional third-party administrator. The Trustee has delegated the administration of Plan member records to Capita. The Trustee has agreed minimum timescales with Capita for processing requests, including core financial functions. The Service Level Agreements (SLAs) in place cover both the accuracy and timeliness of the financial transactions. Capita's administration reports are reviewed quarterly by the Trustee to determine whether any service issues have arisen. Performance against SLAs for the year to 31 December 2020, in regards to cases across both this Plan and the Morgan Stanley UK Group Pension Plan, was 97.5%. The detailed SLA achieved over 2020 are presented in the table below:

REPORTING PERIOD	CASES RECEIVED	CASES COMPLETED IN SLA	SLA ACHIEVED
Q1 2020	3,778	3,721	98.49%
Q2 2020	2,795	2,724	97.46%
Q3 2020	3,033	2,951	97.30%
Q4 2020	3,458	3,342	96.65%

\*This assessment includes both Main and Top-up plan.

- Ensuring that detailed disaster recovery plans are in place with the administrator and other relevant third parties.
- The Schedule of Contributions sets out timescales for the Company to remit monthly contributions to the Plan. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions is reviewed by the Company.
- The Trustee has appointed Mercer Workplace Savings ('MWS') and Scottish Widows to provide investment platform services to the Plan. The Trustee last conducted a full formal review of both MWS and the Scottish Widows Investment Platform in 2011. The Investment Committee also conducts an informal annual review of both MWS and Scottish Widows.
- The Trustee also appoints an independent auditor (Deloitte LLP) to carry out an annual audit of the Plan, including the core financial transactions that have taken place during the Plan year.

The Trustee is satisfied that over the period covered by this Statement:

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

### **Charges and transactions costs**

As required by regulation 25 of the Administration Regulations, the Trustee is required to report on the charges and transaction costs for the investments used in the default and self-select arrangements and their assessment of the extent to which the charges and costs represent good value for members. The statutory guidance has been considered in reporting this information.

We note that while transaction costs and charges are an important consideration, they are not the only criteria the Trustee assesses. A number of other qualitative and quantitative factors are also considered in a holistic manner when making strategic decisions in relation to investment strategy with good outcomes for members being the ultimate goal for the Plan.

The following sections provide further detail on the charges applicable to the funds in the DDO as well as a summary of the charges across the funds in the self-select fund range.

### **FUND CHARGES**

Charges relating to investment management are deducted from the funds in which Plan members are invested. All other costs associated with running the Plan, including administration, advisory and member communication costs are paid by the Company (other than legacy Additional Voluntary Contribution (AVC) holdings where members may also incur administration expenses).

The Plan provides details of the costs borne by members in two forms – the annual management charge ("AMC") and the total expense ratio ("TER"). The AMC is the core charge that covers the cost of accessing and managing a fund. Where applicable, this includes a Mercer Intermediary Charge (for the use of the Mercer Workplace Savings (MWS) service), as well as an Investment Only platform fee for accessing funds via the Scottish Widows platform. The TER includes the AMC plus variable costs associated with managing a fund such as administrative, audit and legal fees.

In addition to the funds provided by Scottish Widows, the Trustee has also made available to members the Genesis Emerging Markets Investment Company Fund; this is not available on the Scottish Widows platform, and so has been provided directly by the fund manager, Genesis Investment Management ("Genesis").

The Plan complies with the regulations on charge controls introduced from April 2015. Specifically, the Plan's DDO has a TER that is well below the charge cap of 0.75% p.a. at each stage of the life-styling process. The TER payable under the default investment arrangement will vary depending on the stage that each member has reached in the de-risking process.

The following sections provide further detail on the charges applicable to the funds in the DDO as well as a summary of the charges across the funds in the self-select fund range.

### **ACTIVE DIVERSIFIED GROWTH FUND**

The Active Diversified Growth Fund is a bespoke 'fund of funds' that aims to achieve capital growth via investment in return-seeking assets such as, but not limited to, equities. This fund can also be invested in by members on a self-select basis. Within the DDO, the Active Diversified Growth Fund is held by members until fifteen years prior to age 65, when it is gradually sold in favour of the Active Diversified Retirement Fund. The Cash Fund is then gradually introduced, from age 55. The final allocation at age 65 is 75% in the Active Diversified Retirement Fund and 25% in the Cash Fund.

The current strategic asset allocation of the Active Diversified Growth Fund and its ongoing charges are shown in the following table.

WEIGHT (%)	CURRENT UNDERLYING COMPONENT	ANNUAL MANAGEMENT CHARGE (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
60.0	Passive Global Equity	0.127	0.137	-0.010
22.5	Active Absolute Return	0.517	0.537	0.653
10.0	Active Multi-Asset Credit	0.517	0.617	0.106
7.5	Active UK Property	0.667	0.717	0.158
<b>Active Diversified Growth Fund</b>		<b>0.294</b>	<b>0.319</b>	<b>0.170</b>

Source: Scottish Widows, as at December 2020. An explanation of transaction costs is included on the next page.

#### ACTIVE DIVERSIFIED RETIREMENT FUND

The Active Diversified Retirement Fund is a bespoke 'fund of funds'. It is used within the DDO (beginning from fifteen years to age 65) and is also available as

a self-select option. The current strategic asset allocation of the Active Diversified Retirement Fund is shown in the table below.

WEIGHT (%)	CURRENT UNDERLYING FUND	ANNUAL MANAGEMENT CHARGE (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
35.00	Passive Global Equity	0.127	0.137	-0.010
16.25	Active Absolute Return	0.517	0.537	0.653
10.00	Active Multi-Asset Credit	0.517	0.617	0.106
3.75	Active UK Property	0.667	0.717	0.158
8.75	Active Global Corporate Bond	0.127	0.317	0.269
8.75	Active UK Corporate Bond	0.367	0.387	-0.037
8.75	Passive Gilt	0.072	0.076	0.036
8.75	Passive Index-Linked Gilt	0.072	0.076	0.004
<b>Active Diversified Retirement Fund</b>		<b>0.259</b>	<b>0.297</b>	<b>0.141</b>

Source: Scottish Widows, as at December 2020. An explanation of transaction costs is included on the next page

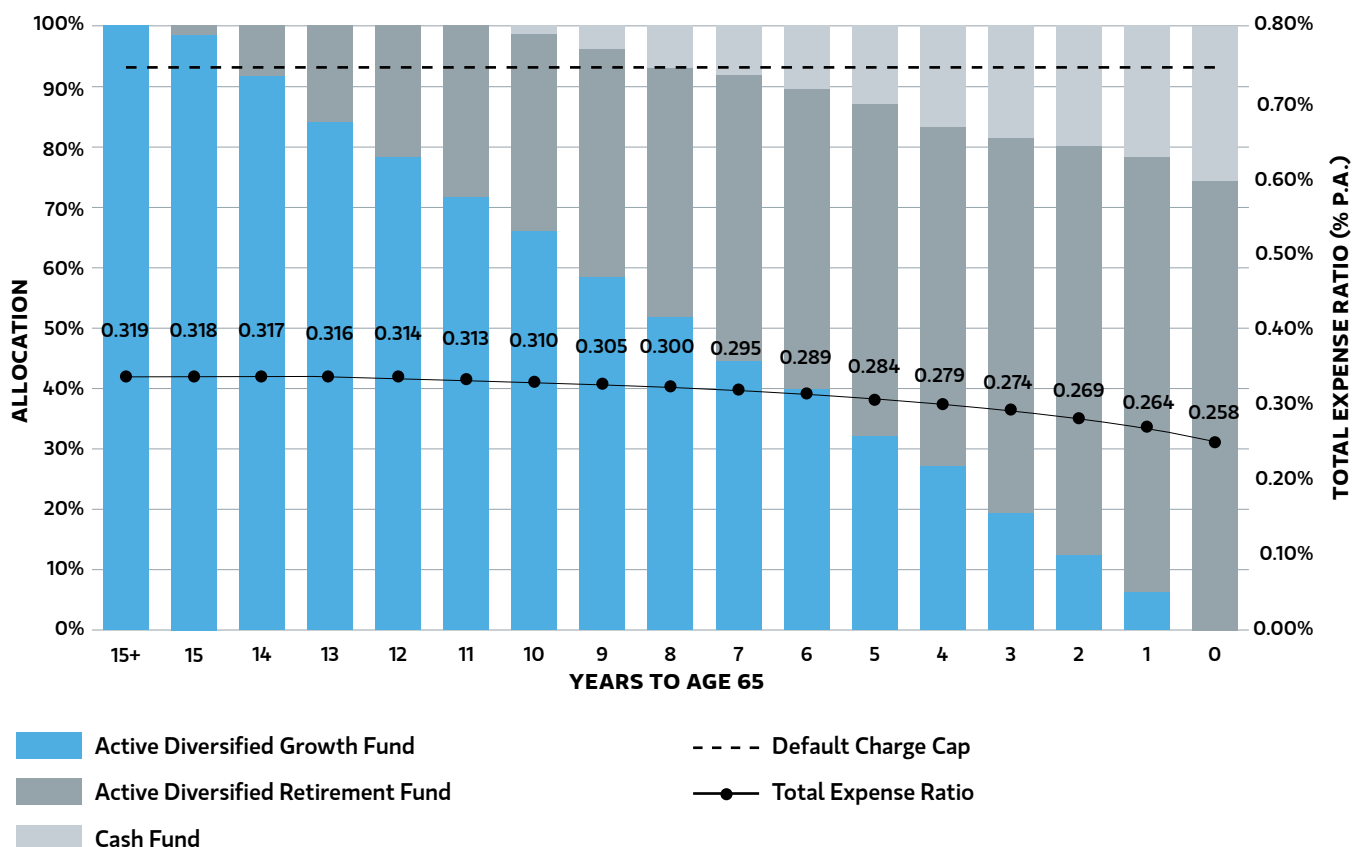
#### CASH FUND

The Cash Fund invests primarily in cash and money market assets. The fund is introduced within the DDO starting ten years from age 55. It is also available as a self-select option. The fund is aimed at members who are looking to withdraw a cash lump sum at retirement and/or wish to minimise their exposure to the risk inherent in investment markets. However, over the long term, cash is likely to underperform other investment asset classes and inflation.

The underlying fund is actively managed by BlackRock. As at December 2020, the AMC and TER for the fund were the same, at 0.142% p.a. (based on data provided by Scottish Widows).

#### THE DIVERSIFIED DEFAULT OPTION (DDO)

The following chart shows how the fees change over a member's working lifetime for the DDO and takes into account the changes to the asset allocation over the final fifteen years before a member's retirement. The charge cap is shown by the dotted line, and by design, the Plan's fees are currently significantly below this. The charge cap of 0.75% p.a. applies for qualifying auto enrolment schemes.



#### SELF-SELECT FUND RANGE AND TRANSACTION COSTS

The Plan's self-select fund range comprises of 24 funds (including the three funds used in the DDO described above). The following table provides information on the charges for the self-select investment options. In addition to investment management charges and the additional fund expenses included in the TER, investment funds are subject to other implicit costs, such as the investment manager's expenses associated with trading a fund's underlying securities, including

commissions and stamp duty. These expenses are not explicitly deducted from the fund but are captured by a reduction in investment returns.

The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding calculations and disclosures of transaction costs, which comply with the updated Administration Regulations. The Trustee has requested this information from the underlying fund managers, through the Plan's investment platform provider where applicable, and has included it in the table below.

FUND	ANNUAL MANAGEMENT CHARGE (% P.A.)	ADDITIONAL FUND EXPENSES (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
Active Global Growth Equity	0.617	0.030	0.647	0.040
Active Global Equity	0.692	0.150	0.842	0.099
Active Emerging Markets Equity	0.817	0.150	0.967	0.214
Active Emerging Markets Debt	0.577	0.170	0.747	-0.023
Active Global Corporate Bond	0.127	0.190	0.317	0.269
Active UK Corporate Bond	0.367	0.020	0.387	-0.037
Active UK Property	0.667	0.050	0.717	0.158
Active Multi-Asset Credit	0.517	0.100	0.617	0.106
Active Sustainable Equity	0.717	0.018	0.735	0.293
Active Diversified Growth *	0.294	0.025	0.319	0.170

FUND	ANNUAL MANAGEMENT CHARGE (% P.A.)	ADDITIONAL FUND EXPENSES (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
Active Diversified Retirement *	0.259	0.038	0.297	0.141
Active Absolute Return	0.517	0.020	0.537	0.653
Passive UK Equity	0.072	0.003	0.075	-0.016
Passive Global Small Cap Equity	0.402	0.000	0.402	-0.262
Passive Emerging Markets Equity	0.172	0.060	0.232	-0.083
Passive Global Equity	0.127	0.010	0.137	-0.006
Passive US Equity	0.072	0.007	0.079	-0.009
Passive Europe (ex-UK) Equity	0.072	0.015	0.087	-0.020
Passive Japan Equity	0.072	0.011	0.083	-0.019
Passive Pacific Rim (ex-Japan) Equity	0.072	0.015	0.087	-0.008
Passive Gilt	0.072	0.004	0.076	0.036
Passive Index-Linked Gilt	0.072	0.004	0.076	0.004
<b>Cash *</b>	<b>0.142</b>	<b>0.000</b>	<b>0.142</b>	<b>0.015</b>
<b>Genesis Emerging Markets Investment Company **</b>	<b>0.630</b>	<b>0.060</b>	<b>0.690</b>	<b>0.40</b>

Source: Scottish Widows and Genesis. Charges as at December 2020; transaction costs for the year to 31 December 2020. Scottish Widows have provided data to three decimal places, while Genesis have provided data to two decimal places only.

\*Funds used within the DDO

\*\*This fund is only available to existing investors within the Top-Up Plan and is provided outside of the Scottish Widows platform arrangements.

## TERs across the Plan's fund range vary from 0.075%p.a. to 0.967% p.a.

The aggregate transaction costs shown account for the impact of market movements between the placement of a request to buy or sell an investment and the execution of that request. As such, the aggregated transaction cost can be positive or negative.

## LEGACY ADDITIONAL VOLUNTARY CONTRIBUTIONS ('AVCS')

The Plan has holdings in a number of unit-linked and with-profits AVC policies with Standard Life. The holdings are relatively small in scale relative to the size of the Plan's main arrangements held with Scottish Widows.

Standard Life provided the following charge and cost information for the funds invested in by the Plan:

FUND	TOTAL EXPENSE RATIO (% P.A.)
Pension Inflation Plus Fund*	—
Pension Millennium with Profits Fund*	—
Pension With Profits Fund*	—
Standard Life European Equity Pension Fund	1.02%
Standard Life Far East Equity Pension Fund	1.08%
Standard Life FTSE Tracker Pension Fund	1.01%
Standard Life International Equity Pension Fund	1.02%
Standard Life Managed Pension Fund	1.02%
Standard Life Mixed Bond Pension Fund	1.01%
Standard Life Multi Asset Managed (20-60% Shares) Pension Fund	1.02%
Standard Life North American Equity Pension Fund	1.01%
Standard Life Property Pension Fund	1.03%

FUND	TOTAL EXPENSE RATIO (% P.A.)
Standard Life Stock Exchange Pension Fund	1.02%
Standard Life UK Equity Pension Fund	1.01%
Standard Life UK Smaller Companies Pension Fund	1.50%
Standard Life At Retirement (Multi-Asset Universal) Pension Fund	1.04%

Figures provided by Standard Life; as at December 2020.

\*With respect to the with-profits and inflation plus policies, payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, for with-profits policies the actual performance received by members, net of charges, is only known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of any 'smoothing'.

The Trustee has requested updated charge and transaction costs for these funds; at the time of writing these have not been provided.

The Trustee, with the assistance of their adviser Mercer, undertook a thorough review of the legacy AVC arrangements in the latter half of 2019 and in early 2020. As a result of this review, the Trustee considered consolidating the unit-linked assets and the Standard Life Pension Inflation Plus fund into the DC arrangement. After deliberation, the Trustee made the decision not to make any changes. In early 2020, the Trustee sent communications to members of the unit-linked funds and the Standard Life Pension Inflation Plus fund reminding them of their investment and the alternative options available to them. The next review is scheduled for 2021.

#### CHARGE AND COST ILLUSTRATIONS

Using the charges and transaction cost data provided by the relevant parties and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan 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 a selection of funds available to members. The funds we are required to illustrate to represent the fund range (with the specific fund within the DC section of the Plan in brackets) are:

- The fund or strategy with the most members invested (the Diversified Default Option)
- The most expensive fund (MS Active Absolute Return)
- The least expensive fund (MS Passive UK Equity)

- The fund with the highest expected return (MS Passive UK Equity)
- The fund with the lowest expected return (MS Cash)

The highest/lowest cost funds have been determined by adding the TER of the fund to its transaction costs where transaction costs are positive (negative costs have been counted as nil for the purposes of this illustration). The highest/lowest return funds have been determined based upon the assumed gross growth rate of each fund (again counting negative costs as nil).

As shown earlier in the document, the AVC funds have higher charges overall than the DC fund range, and consequently the Standard Life UK Smaller Companies Pension Fund has the highest charge in the overall Scheme. However, as the AVC range is only invested in by a small proportion of the Scheme membership, we have chosen to illustrate the DC funds in our initial illustrations. An illustration showing the UK Smaller Companies fund, with membership assumptions based on the membership of the AVC funds, can be found in the Appendix.

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 member's pension pot, we have provided examples below and in the Appendices. The illustrations account for all estimated member costs, including the TER, transaction costs and inflation.



# ILLUSTRATION 1: ACTIVE MEMBER (MEDIAN AGE)

AGE	MOST POPULAR FUND: DIVERSIFIED DEFAULT OPTION		MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN		LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN: MS PASSIVE UK EQUITY		LEAST EXPECTED INVESTMENT RETURN: MS CASH	
	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	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
28	£57,164	£57,164	£57,164	£57,164	£57,164	£57,164	£57,164	£57,164
29	£63,624	£63,313	£63,562	£62,808	£63,757	£63,710	£61,095	£60,999
30	£70,264	£69,601	£70,131	£68,533	£70,549	£70,446	£64,968	£64,771
31	£77,088	£76,033	£76,875	£74,342	£77,543	£77,380	£68,783	£68,481
32	£84,101	£82,610	£83,799	£80,235	£84,748	£84,516	£72,541	£72,130
33	£91,309	£89,338	£90,908	£86,213	£92,169	£91,861	£76,244	£75,719
34	£98,717	£96,217	£98,207	£92,279	£99,812	£99,421	£79,891	£79,250
35	£106,330	£103,254	£105,701	£98,432	£107,685	£107,201	£83,485	£82,722
40	£147,688	£140,908	£146,283	£130,566	£150,736	£149,651	£100,667	£99,249
45	£195,113	£183,040	£192,581	£165,102	£200,644	£198,677	£116,611	£114,465
50	£249,443	£230,136	£245,400	£202,220	£258,501	£255,299	£131,406	£128,473
55	£307,586	£279,229	£305,660	£242,112	£325,573	£320,693	£145,135	£141,370
60	£361,730	£323,722	£374,408	£284,986	£403,328	£396,219	£157,875	£153,243
65	£405,304	£358,474	£452,840	£331,066	£493,467	£483,447	£169,696	£164,175

## Notes

- Values shown are estimates at the end of each year and are not guaranteed.
- Projected pension pot values are shown in today's terms.
- The starting fund size is assumed to be £57,164 (average pot size for median age member), and this person is 28 years old. This member is assumed to retire at 65.
- Inflation and salary increases are assumed to be 2.5% per annum.
- The initial contribution amount is assumed to be £4,813 per annum (representative starting contribution amount).
- Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2020, shown earlier in this Statement.
- From Scottish Widows' figures, the default strategy has an assumed TER of 0.319% p.a. more than 15 years from retirement, falling to 0.258% p.a. at retirement.
- The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year-End. Scottish Widows have only been able to provide historic transaction costs for these funds for the two years to 31 December 2020; consequently our assumptions are based on averages of the transaction costs for these two years, as follows:

<b>MOST POPULAR FUND:</b> DIVERSIFIED DEFAULT OPTION	0.17% p.a. more than 15 years from retirement, falling to 0.11% p.a. at retirement.
<b>MOST EXPENSIVE FUND:</b> MS ACTIVE ABSOLUTE RETURN	0.65% p.a.
<b>LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:</b> MS PASSIVE UK EQUITY	0.00% p.a.
<b>LOWEST EXPECTED INVESTMENT RETURN:</b> MS CASH	0.02% p.a.



Where funds have negative average transaction costs over the period, we have assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

<b>MOST POPULAR FUND:</b> DIVERSIFIED DEFAULT OPTION	2.6% p.a. more than 15 years from retirement, falling to 0.6% p.a. at retirement.
<b>MOST EXPENSIVE FUND:</b> MS ACTIVE ABSOLUTE RETURN	2.0% p.a. after inflation
<b>LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:</b> MS PASSIVE UK EQUITY	3.0% p.a. after inflation
<b>LOWEST EXPECTED INVESTMENT RETURN:</b> MS CASH	-1.5% p.a. after inflation

Further illustrative examples of the cumulative effects over time of the relevant costs and charges on the value of members' benefits can be found in the Appendix.

The Trustee fully supports transparency of costs for members. We also reiterate that while costs and charges are an important consideration, they are not the only criteria the Trustee assesses. A variety of factors are typically considered in a holistic manner when making strategic decisions in the best interests of the Plan's members.

## Value for Members

Over the second quarter of 2021, the Trustee carried out a review of the extent to which member-borne investment charges represent good value for members for the year ending 31 December 2020. The assessment covered a wide range of financial and non-financial factors including:

- An assessment of member-borne charges for each of the funds available in the Plan (this included benchmarking against comparable funds in each asset class based on peer group data provided by the Plan's investment advisors, Mercer Limited).
- A review of transaction costs and charges where available.
- An assessment of the historic returns of the available fund options relative to their respective objectives.
- An assessment of each fund's manager research and Environmental, Social, and Governance (ESG) rating (as provided by the Plan's investment advisors, Mercer Limited).
- A review of the other features that are paid for by the employer and deliver good value for members. In particular, the employer pays the administration costs of the Plan. Other features and services that strengthen the Plan's value proposition include but are not limited to efficient administration services, modelling tools and trustee oversight.

9. The projected real gross growth rates for each fund are based on Mercer assumptions, as follows:

The review concluded that overall, taking into account all of the above factors, the Trustee believes that the Plan provides good value relative to the costs borne by members.

The Trustee undertakes annual assessments and the next formal Value for Money assessment will take place for the year ending 31 December 2021.

## SECURITY OF ASSETS

The Plan undertakes periodic reviews, first undertaken in October 2014, of the financial protections available to members in the unlikely event of losses caused by the insolvency or other failure of one or more companies involved in managing the Plan's investments. Following input from the Trustee's legal and investment advisors, the Trustee is satisfied with the level of protection afforded to Defined Contribution assets.

## Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

Trustee training is of high importance to the good running of the Plan. The Trustee acknowledges how vital it is that they maintain their knowledge of pension law, trust law, investment principles and are conversant with the Plan documentation including the Trust Deed and Rules, SIP and Plan policies.

## ONGOING TRAINING

In order to maintain this level of knowledge, the Trustee has procedures and policies in place:

- Trustee Directors undertake additional ongoing training to ensure that they keep up-to-date with changes in legislation, current issues and the latest developments relating to DC schemes;

- All training activities are recorded in a training log; and
- Trustee training is considered and reviewed throughout the year to determine any specific training and development needs. Training sessions are then planned accordingly.

Over the course of the last year the Trustee Directors have demonstrated their continuous commitment to learning by undertaking the following training:

- The Future of Trusteeship and Governance training (05/03/2020);
- Balance of Powers training, delivered by the Scheme's lawyers, which specifically referenced the Scheme's Trust Deed and Rules (02/06/2020);
- Environmental, Social and Governance integration in Emerging Debt Markets training (18/11/2020);
- DB Funding Code (01/12/2020);

The Trustee also received quarterly updates on pension trends and developments by Mercer Limited, the Plan's investment advisor.

#### **TRUSTEE INDUCTION**

There is an induction process in place for new trustees, whereby detailed training sessions are run by the Plan's advisors, which cover legal, actuarial and investment training. There were no new trustees during the Plan year. New trustees will be required to complete the Pension Regulator's Trustee Toolkit.

#### **EXAMPLES DEMONSTRATING TRUSTEE KNOWLEDGE AND UNDERSTANDING**


The Trustee undertook a number of activities over the past year, which demonstrates how they have a working knowledge of pension and trust law and funding and investment principles.

Examples of these activities include:

- The SIP was reviewed by the Trustee and updated in August 2020, to bring the document in line with the most recent regulations. This demonstrates their knowledge of the Plan documentation;

#### **Chair's declaration**

I confirm that the above statement has been produced by the Trustee to the best of its knowledge.

Signature: 

Name: **David Best**

Position: **Chair of the Morgan Stanley UK Group Top-Up Pension Plan**

Date: **29 July 2021**

- The Risk Register is reviewed and updated annually. This demonstrates that the Trustee Directors have the required knowledge of the Pensions Regulator's DC Code and hold relevant knowledge on DC specific internal controls and the regulatory requirements;
- Balance of Powers training which specifically reference the Scheme's Trust Deed and Rules in June 2020; and
- The Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases.

#### **UTILISING ADVISORS**

The Trustee believes that the best run Plans utilise the combined skill and knowledge of both the Trustee and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors.

Additionally, the following measures have applied during the period:

- The Trustee's professional advisors attend their formal meetings;
- The Trustee board contains Trustee Directors with wide ranging skills and experience, including pension experience; and
- The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting.

#### **ASSESSING EFFECTIVENESS**

The Trustee Directors understand that having knowledge on the Board and the professional advice available needs to be used effectively in order for the Trustee to act properly. The examples below demonstrate the actions that have been taken to ensure this is the case:

- The Trustee Directors review training requirements throughout the year;
- The Trustee Directors have in place a training plan that is used to plan training ahead of annual events.