# Trane UK Limited Retirement Benefits Plan
# Chair's Statement for period 6 April 2021 to 5 April 2022

**Introduction**

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. An important part of these governance requirements is the need for Trustees of DC pension arrangements to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options and net investment returns in which members' funds are invested
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

The Trane UK Limited Retirement Benefits Plan (the 'Plan') is a defined benefit ('DB') pension arrangement, meaning that the requirement to produce an annual statement would not normally apply. However, there is a DC underpin (known as Personal Pension Accounts – or 'PPAs') which means that the DC governance requirements can come in to effect in certain circumstances, hence the need for this Statement.

**PPAs – DC underpin of DB benefits**

As stated above, some members of the Plan effectively have a DC 'underpin' applied to their DB benefits at the point at which they "crystallise" (begin drawing benefits). When a member of the Plan takes their retirement benefits, transfers out or dies, their benefits are tested to check if the underpin applies. This is referred to as the PPA in the Plan Rules.

If the value of the PPA is greater than the value of the DB benefits, the DC underpin 'bites' and the Trustees must ensure that the value of the benefits paid out to the member is in line with the PPA. Under the Plan Rules described above, this underpin is equivalent to a DC benefit and so the requirement for the Trustees to produce a Chair's Statement applies if the underpin is triggered.

The underpin has rarely bitten in the past, as usually the value of the DB benefits is greater that the PPA. However, the underpin has been triggered in some specific member situations and, as a consequence, the Trustees have prepared this Statement to ensure compliance with the DC governance regulations. However, the Trustees would note that there are no ring-fenced DC assets nor are there any earmarked DC policies for members. In light of this, the Trustees are limited in terms of their ability to report against a number of the DC governance requirements and this Statement should be considered in that context.

Neither the Plan nor the PPAs are used for automatic enrolment purposes.

**Additional Voluntary Contribution arrangements ('AVCs')**

The Plan also has two AVC providers – Utmost and Prudential. Members have historically been able to contribute to the Plan's AVC arrangements, although it is no longer possible to pay in contributions. Standalone AVC policies (which are defined contribution ('DC') benefits) do not normally require the production of a Chair's Statement. However, if a Chair's Statement is required in relation to a scheme for another reason, as in this case, AVCs must be included.

## Investment Strategy

**PPAs**

As the Plan is a DB pension arrangement and there are no ring-fenced DC assets, investment strategy is framed purely from a DB perspective. There is no DC investment default and nor are members permitted to make any investment choices in relation to their PPAs. When calculating whether the DC underpin bites at retirement, the Trustee makes the assumption that the member is invested within the BlackRock LDI Fund which is one of the funds that makes up the DB assets.

**Additional Voluntary Contribution arrangements ('AVCs')**

***Utmost***

The default for the Utmost AVC arrangement is Utmost's 'Investing by Age' (IbA) strategy, which is a lifecycle that automatically moves members into lower-risk funds as they approach retirement. The default was chosen following the transfer of members' assets from the former Equitable Life arrangement in January 2020.

***Prudential***

There is no default fund under the Prudential arrangement; members are invested in a mix of unit-linked and a with-profits fund. This is a legacy AVC, and there has been no historic requirement to select a default arrangement.

The Trustees regularly assess the performance, suitability and charges of the investment funds available. The last assessment took place in February 2022 and the Trustees with the help of their professional advisers concluded that the AVCs arrangements continued to provide sufficient value for members, especially since members are able to use up to 100% of their AVCs to fund tax-free cash at retirement. The position will be reviewed again in 2023.

Please refer to Appendix 2 for details of the underlying funds within the IbA, the Prudential funds and all assocaited costs and charges.

**Statement of Investment Principles ('SIP')**

The SIP sets out the aims and objectives of the Plan's investment strategy. In particular it covers:

- The Trustees' investment objectives and investment strategy;
- Policies on managing risk; and
- Brief details of the AVC options.

The Plan's SIP was last updated in September 2020 and is appended to this Chair's Statement.

As the Plan is primarily a DB arrangement, the SIP focuses very much on DB investment strategy and there is limited consideration of the PPAs.

**Core Financial transactions**

Processing of core financial transactions such as contributions (in respect of the main DB Plan only), payments to members, beneficiaries and switches between investments) is carried out by the administrators of the Plan, Towers Watson Limited (Willis Towers Watson – WTW), and the AVC providers where applicable.

**PPAs**

The Plan's administrators have confirmed to the Trustees that there are adequate internal controls to ensure that core financial transactions relating to the Plan are processed promptly and accurately. This includes the investment of contributions, processing of transfers in and out of the Plan, transfers of assets between different investments within the Plan, and payments to members/beneficiaries.

The Trustees regularly monitor the core financial transactions of the Plan throughout the year, through the receipt of quarterly reports from the Plan's administrators, which are reviewed at Trustees' meetings. A Service Level Agreement (SLA) is in place with the administrators which, inter alia, covers the accuracy and timeliness of all core transactions. The SLAs are regularly monitored by the Trustees and, over the Plan year in question, the quarterly performance figures were 89%, 94%, 95%, and 96% of tasks were completed within the agreed SLAs. The Trustee will continue to monitor performance of the administrator by the use of regular administration reporting.

Some of the key processes adopted by the administrator to help it meet the SLA are as follows:

- Monthly monitoring of trustee bank accounts
- Monthly reconciliation between contribution remittance and the schedule of contribution or payment schedule
- Review of receipts to confirm statutory time limits for contributions are met
- AVCs are distinguished and separately recorded upon receipt
- A daily workflow planning tool is used to ensure cases are processed in a timely manner and in the correct order of priority
- Initial pension payment calculations and allocation of funds for drawdown are independently reviewed within the team
- Monthly pension payment reconciliation is carried out
- Additional checks are carried out where payments are above a certain limit, or where there is more than one payment for a member within the same pay reference period

The Trustees also have regular input from the administrators at the quarterly Trustee meetings, which gives them the opportunity to discuss things such as processes, data, any issues or changes.

If any errors or unreasonable delays or responses are identified, the Trustees hold the administrators or investment manager, as appropriate, to account and seek to ensure that such issues are rectified and prevented from reoccurring.

**Additional Voluntary Contribution arrangements ('AVCs')**

There are no contributions into the AVC arrangements, so the focus of the AVC providers are processing of transfers in and out of the Plan, transfers of assets between different investments within the Plan, and payments to members/beneficiaries. Any instructions to the AVC providers must come through the Trustees via the administrators of the Plan, and any transactions would fall within the SLA parameters described above.

In addition, the Trustees, with the help of their advisers, regularly monitor the performance of the AVC providers to ensure they are meeting their obligations and prescribed timelines.

The Trustees are satisfied that, in respect of both the PPAs and AVCs:

- 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 transaction costs

When preparing this section of the statement, the Trustees have taken account of the statutory guidance from the Department for Works and Pensions (DWP) on “Reporting on Costs and Charges”.

The Trustees are required to set out the on-going charges borne by members in this Statement, which are the annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds.

The Trustees are also required to separately disclose transaction cost figures that are borne by members. In the context of this Statement, the transaction costs shown are those incurred when the Plan’s fund managers buy and sell assets within investment funds.

### PPAs

Other than the investment charges (which will only be relevant if the DC underpin bites), Plan expenses including professional adviser fees are, in effect, met out of contributions made by the Company.

As the Plan is a DB arrangement, the investment funds are pooled, and there is no ring-fencing of monies for the PPAs. However, this does mean that the charges are significantly lower than they would be if the members were invested in a stand-alone DC arrangement.

The Trustees, along with their professional advisers, continually review the performance of the investment funds.

The fund charges and transaction costs relevant to the PPAs can be found in Appendix 1 to this Statement.

### Charges – impact on member outcomes

Over time, the charges and transaction costs that are taken out of a member’s pension savings can reduce the amount available to the member at retirement. The Trustees have set out in the Appendix to this Statement illustrations of the impact of charges and transaction costs on members PPAs.. The illustrations have been prepared in accordance with the DWP’s statutory guidance on “Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes” on the projection of an example member’s pension savings.

In preparing these examples, we obtained the information from the fund managers. The illustrations have been carried out for the fund that is used to calculate the PPA value.

**Additional Voluntary Contribution arrangements ('AVCs')**

*Charges*

Trustees are also required to make an assessment of charges and transaction costs borne by the members with AVC balances.

The Trustees have reviewed the fees payable by members of the Plan and will continue to do so to ensure charges are competitive based on the size of the arrangement.

The Trustees make available a range of funds through Prudential and Utmost which may be chosen by members. These funds attract annual charges of between 0.66% and 0.76%pa. with the exception of the Prudential With-Profits Fund, which is implicit, and dependent on the performance of the fund, in particular the investment returns and Prudential's expenses. If, for example, over time investment returns are higher, then Prudential would expect to increase the charges and if investment returns are lower they would expect to reduce the charges. Prudential currently expect this charge to be 0.80% a year, based on the assumption that future investment returns from the With-Profits Fund will be 5% per year. They deduct this charge through the bonus mechanism.

*Transaction charges*

See Appendix 2 to this Statement for the transaction costs provided by Utmost and Prudential in respect of the AVC arrangements.

## Performance of investment funds

When preparing this statement, the Trustees have taken account of the DWP's statutory guidance on reporting of Net Investment Returns". From 1 October 2021 trustees are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges and recorded in the Chair's Statement.

See Appendix 3 to this Statement for the investment returns relevant to the PPAs and AVC arrangements.

## Value for members

The Trustee are required to assess the extent to which member borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of "good value", but the Trustees consider that it broadly means that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Plan membership as a whole, when compared to other options available in the market, albeit that this is especially difficult to quantify in the case of the PPAs. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustees are committed to ensuring that members receive value for members (VFM) from the Plan (i.e. costs and charges deducted from members' pots provide good value in relation to the benefits and services provided by or on behalf of the Plan) compared to plans of a similar size or structure.

The Trustees have assessed the extent to which the Plan provides value for members, taking into account the charges and transaction costs. Separate assessments were carried out in relation to the PPAs and the AVCs due to unique benefits and requirements of each, and covered the following areas:

- the oversight and governance of the Trustees, including ensuring the Plan is compliant with relevant legislation, such as the charge cap, and holding regular meetings to monitor the Plan and address any material issues that may impact members;
- the range of investment options and strategies – this included a review of the performance of the Plan's investment funds (after all charges) in the context of their investment objectives and confirming that the returns on the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives. This is done at least every three years in relation to the main DB Plan, and annually in respect of the AVC arrangements;
- the quality of communications delivered to members;
- the quality of support services; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Plan year.

The Trustees believe that, overall, members get good value in relation to the investment funds for the PPAs and sufficient value in respect of the AVC benefits for the following reasons:

- The costs and charges are low (for PPAs) in comparison with other DC arrangements and in line (for AVCs) with comparable AVC arrangements;
- Members are part of a well governed scheme which receives a comprehensive administration service, as evidenced by the consistently high percentage of tasks completed within SLA;
- The Trustees of the Plan, with support from their professional adviser, regularily monitor and review the arrangements to ensure that they remain sufficient and appropriate for purpose; and
- The Plan rules allow members to use up to 100% of their DC funds to fund tax free cash. This enables members to minimise the amount of DB pension they need to commute and is seen as a key driver of value for members in the context of their DC arrangements.

The Trustees do acknowledge the special circumstances of the PPAs and recognise there are no investment options available within the Plan to members under this arrangement. It should be noted that the PPA in and of itself provides underlying value for members i.e. members overall benefits cannot fall below a certain, pre-determined value as long as they are eligible and remain within the Plan.

**Trustee knowledge and understanding (TKU)**

The Plan Trustees are required to maintain appropriate levels of knowledge and understanding to run the Plan effectively. Each Trustee must:

i. Be conversant with the Trust Deed and Rules of the Plan, the Plan's Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Plan generally; and

ii. Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

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

The Board of Trustees maintains a strong process to enable it to properly fulfil its role and responsibilities and to ensure the individual Trustees have sufficient knowledge and understanding to run the Plan effectively. The Trustees' approach to meeting the TKU requirements include:

- Introductory training for new Trustees;
- As appropriate, training in line with the Pension Regulator's Trustee Toolkit;
- Maintaining a rolling programme of Trustee training which is delivered within Trustees' meetings where appropriate;
- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chair's statement;
- Reviewing the training programme regularly following an assessment of Trustee knowledge, understanding and skills; and
- Supplementing the general Trustee training with additional DC-specific training delivered within DC Committee meetings.

Training covers a variety of topics, and aimed to build on the Trustees' general pensions knowledge, and their understanding of the Plan. Specific Trustee training over the Plan year included:

- Investment and climate risks
- The Pension Regulator's new powers and notifiable events
- GMP recalculation
- Actuarial valuations

Supplementing the general Trustee training with additional DC-specific training delivered within DC Committee meetings

As a result of the training undertaken, the specialist skills of the individual Trustees and the professional advice available, we are confident that the combined knowledge and understanding enables the Board of Trustees to exercise properly our functions as Trustees of the Plan. In particular, the Trustees are conversant with the Trust Deed and Rules, the current Statement of Investment Principles, the documents detailing the Trustees' policies, pensions and trust law, and the principles for funding and investment of occupational schemes.

**Approved by the Trustees and signed on their behalf by:**

**Chair of Trustees** **Date**

**Appendix 1 – cost and charge analysis – PPAs**

The table below sets out the TER and transaction costs for the fund which is relevant to the PPAs. As required, illustration examples of the cumulative effect of these costs and charges incurred by members are also included below.

**Fund charges and transaction costs**

| **Name of fund** | **BlackRock LDI** |
|---|---|
| **Total Expense Ratio (% pa)** | 0.10% |
| **Transaction costs (% pa)*** | 0.00% |

*Transaction costs arise when a fund manager buys or sells the underlying assets of a fund. The transaction cost information provided showed both funds generated a negative costs, ie more units have been sold than purchased. Please note, administrative costs for the Plan are met by the Company and do not impact the member.

**Illustrations of the impact of the above charges and costs**
The purpose of the example below is to show how fund related costs and charges can affect the overall value of the funds that the Plan invests in over time.

**Illustrations showing the impact of fund transaction costs and charges in a projected pension fund in today's money (£)**
The "before charges" column shows the projected pension fund values without any transaction costs, charges or rebates being applied.
The "after all charges" column shows the projected pension fund values after transaction costs, charges and rebates that have been applied.

| **Projection period (years)** | **BlackRock LDI** | |
|---|---|---|
| | **Before charges** | **After charges** |
| 1 | £7,100 | £7,100 |
| 3 | £6,900 | £6,800 |
| 5 | £6,600 | £6,600 |
| 10 | £6,100 | £6,100 |
| 15 | £5,700 | £5,600 |
| 20 | £5,200 | £5,100 |
| 25 | £4,800 | £4,700 |
| 28 | £4,600 | £4,500 |

**About these illustrations**
The table above gives a summary of the projected fund and the impact of costs and charges up to a normal retirement age of 65. The figures are presented using an example of the youngest member of the DB scheme with a DC underpin. Additionally, the table includes the performance of the funds over different time periods.

*Assumptions and notes:*

1. Projected pension account values are shown in today's terms.
2. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
3. Charges and costs are deducted before applying investment returns.
4. Inflation is assumed to be 2.5% each year.
5. No additional contributions are assumed.
6. Values shown are estimates and are not guaranteed.
7. The real projected growth rate for the fund is as follow:
    - BlackRock LDI: -1.59%

8. Transactions costs and other charges have been provided by BlackRock and cover the period 6 April 2021 to 5 March 2022. Transaction costs have been averaged by WTW using a time-based approach.
9. Pension scheme's normal retirement age is 65.
10. Example member: age 37, total contribution: £0, starting fund value: £7,201.

## Appendix 2 - Cost and charge analysis – AVCs

The table below sets out transaction costs and certain charges which apply to selected AVC funds together with illustration examples of the cumulative effect of these costs and charges incurred by members.

**Fund transactional costs and charges total (%)**

| **Utmost Life and Pensions** | | |
|---|---|---|
| **Fund name** | **Current TER (%) pa** | **Transaction Cost (%)pa** |
| Multi-Asset Moderate* | 0.75 | 0.18 |
| Multi-Asset Cautious* | 0.75 | 0.13 |

*Multi-Asset Moderate and Multi-Asset Cautious fund charges and transaction costs as at 31 March 2022

| **Prudential** | | |
|---|---|---|
| **Fund name** | **Current TER (%)** | **Transaction Cost (%)** |
| Prudential Fixed Interest | 0.76 | 0.08 |
| Prudential Dynamic Growth | 0.74 | 0.00 |
| Prudential UK Equity Passive | 0.66 | 0.15 |
| Prudential UK Equity | 0.76 | 0.06 |
| Prudential With-Profits Cash Accumulation | N/A* | 0.00 |

*The With-Profits Fund's management charge depends on the performance of the With-Profits Fund, in particular the investment return and our expenses. If, for example, over time investment returns are higher, then Prudential would expect to increase the charges and if investment returns are lower they would expect to reduce the charges. Prudential currently expect this charge to be 0.80% a year, based on the assumption that future investment returns from the With-Profits Fund will be 5% per year. Prudential deduct this charge through the bonus mechanism.

## Appendix 3 – Performance of investment funds relevant to the PPA and and AVCs

The tables below sets out the net investment performance which apply to the funds that are relevant to the PPAs and selected AVC funds.

***PPA funds***

| Fund Name | 1 year performance (%) | 3 year performance (per annum) (%) | 5 year performance (per annum) (%) |
|---|---|---|---|
| BlackRock LDI | 1.0 | 1.9 | 2.5 |

**Source**: BlackRock as at 31 March 2022

***AVC funds***

| **Utmost Life and Pensions** | | | |
|---|---|---|---|
| **Funds used under the default IbA strategy** | **3 month performance (%)** | **6 month performance (%)** | **1 year performance (%)** |
| Multi-Asset Moderate | -3.37 | 0.15 | 5.62 |
| Multi-Asset Cautious | -4.52 | -2.57 | 0.40 |

**Source**: Utmost as at 31 March 2022

As the net investment returns under the IpA are different for members of different ages, the table below shows the annual net investments returns for members aged 25, 45 and 55. This has been demonstrated over a one year period due to the fact the funds were only launched in January 2020.

| IpA Strategy | 1 year performance (%) |
|---|---|
| Member aged 25 | 5.62 |
| Member aged 45 | 5.62 |
| Member aged 55 | 5.09 |

| Prudential | 1 year performance (%) | 5 year performance (per annum) (%) |
|---|---|---|
| Prudential Fixed Interest | -5.2 | 2.4 |
| Prudential Dynamic Growth | 0.7 | 4.7 |
| Prudential UK Equity Passive | 17.4 | 4.8 |
| Prudential UK Equity | 15.5 | 5.2 |
| Pruential With Profits Cash Accumulation | 1.0 | 1.2 |

**Source**: Prudential as at 31 December 2021

Whilst it is important to understand the Plan's investment performance, it is also important to remember that pensions are a long-term investment. Member's shouldn't make decisions based solely on short-term investment performance (either up or down). Also remember that investments can go down as well as up and members may not get back the amount that they invest.