

Trane UK Limited Retirement Benefits Plan Chair's Statement for year ending 5 April 2024

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 default option;
- the charges and transaction costs borne by members;
- the asset allocation of the default option;
- an illustration of the cumulative effect of the costs and charges;
- the requirements for processing financial transactions;
- net investment returns in which members' funds are invested;
- 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 into effect in certain circumstances, thus necessitating the requirement to produce a Chair's Statement.

This Statement covers the Plan year to 5 April 2024. The Trustees have elected to use the Plan year as the period against which the charges and transaction costs incurred by the Plan's Money Purchase Section will be assessed (the "Plan Year"). As with last year's statement, we have included information relating to charges and transaction costs and a 'pounds and pence' illustration demonstrating the potential impact of costs and charges on a member's DC savings over the course of their Plan membership.

The Trustees have also included details of the full asset allocation of investments in respect of the default investment arrangements in which members are invested during the Plan year. A new requirement for this year's statement.

The Trustee has also decided to extend this Statement to explain how it meets its governance duties in relation to the Additional Voluntary Contribution ("AVC") arrangements in the Defined Benefit Section.

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 than 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 fully report against a number of the DC governance requirements and this Statement should be considered in that context.

Investment Strategy

Appended to this Statement is the Plan's latest Statement of Investment Principles (SIP), it can also be viewed on website <https://trane.eu/uk/contact-us.html>. The SIP sets out the aims and objectives of the Plan's investment strategy and was last updated in September 2023. In particular it covers:

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

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.

As a DB pension arrangement there are no actual ring-fenced DC assets, the investment strategy is framed purely from a DB perspective. There is no actual 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 Trustees make the assumption that the member is invested within the BlackRock LDI Fund which is one of the funds in which DB assets are invested. However, as members are not provided with an option on which fund is used if the DC underpin were to bite, for the purposes of this statement we have treated the BlackRock LDI as a default arrangement. The Trustees review the assets underlying the PPA unit price as part of their triennial factor reviews. The last such review was September 2023 where the Trustees agreed that the Blackrock holdings would continue to be used. The Blackrock holding is currently 100% gilts, with 76% index-linked, 23% fixed-interest and 1% cash.

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.

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 2024 and the Trustees with the help of their professional advisers concluded that the AVC 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 2025.

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

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

In addition, the Occupational Pension Schemes (Administration, Investment, Charges and Governance) and Pensions Dashboards (Amendment) Regulations 2023 (“the 2023 Regulations”) has introduced new requirements for trustees and managers of certain occupational pension schemes. For the first scheme year that ends after 1 October 2023, trustees, or managers of relevant occupational pension schemes, are required to disclose their full investment asset allocations for all default arrangements. Please see Appendix 1 for more information.

AVCs

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, in which the charge 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. They deduct this charge through the bonus mechanism.

See Appendix 2 to this Statement for the transaction costs provided by Utmost and Prudential in respect of the AVC arrangements. In the context of this statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds. Due to calculation methods, these can sometimes be negative. In such circumstances, we have reported as zero.

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 (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, includes 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 95% for Q2 and Q3 2023, 99% for Q4 2023 and 97% for Q1 2024. The Trustee will continue to monitor performance of the administrator by the use of regular administration reporting.

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.

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.

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 – 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 illustrations in the Appendix to this Statement showing 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.

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 Trustees 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.
- 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 very 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, regularly monitor and review the arrangements to ensure that they remain sufficient and appropriate for purpose.
- 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 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:

- 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
- 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 investing 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 are aimed to build on the Trustees' general pensions knowledge, and their understanding of the Plan. Specific Trustee training over the Plan year included:

- Cyber risk; and
- New Funding and Investment Strategy regulations

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)	0.05%
Transaction costs (% pa)*	0%

*Transaction costs arise when a fund manager buys or sells the underlying assets of a fund..

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.

Years		BlackRock LDI	
		Before charges	After charges
Strawman A (Age 38)	1	£7,373.82	£7,369.01
	3	£7,732.01	£7,716.87
	5	£8,107.61	£8,081.16
	10	£9,128.35	£9,068.89
	15	£10,277.61	£10,177.35
	20	£11,571.56	£11,421.30
	25	£13,028.42	£12,817.29
	27	£13,661.29	£13,422.34

Assumptions and notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of inflation.
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. Switching costs are not considered in the lifestyle strategy.
5. Inflation is assumed to be 2.5% each year.

6. Values shown are estimates and are not guaranteed.
7. The real projected growth rate for the BlackRock LDI Fund is 2.4% p.a.
8. Transactions costs and other charges have been provided by Trane Technologies and covered the period Q2 2019 to Q1 2024. The transaction costs have been averaged by WTW using a time-based approach. The transaction costs for Blended funds were estimated by WTW based on the transaction costs for the underlying funds.
9. Pension scheme's normal retirement age is 65.
10. Example member: age 38, no ongoing contributions, starting fund value: £7,201.00

The table below sets out the asset allocation at different points of a members saving journey as follows:

BlackRock LDI				
Asset class	Allocation 25 y/o	Allocation 45 y/o	Allocation 55 y/o	Allocation 1 day prior to NRA
Cash	1%	1%	1%	1%
Gilts	99%	99%	99%	99%

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	0.21
Multi-Asset Cautious*	0.75	0.24

* Multi-Asset Moderate and Multi-Asset Cautious fund charges and transaction costs as at 31 March 2024

Prudential		
Fund name	Current TER (%)	Transaction Cost (%)
Prudential Fixed Interest	0.76	0.02
Prudential Dynamic Growth	0.73	0.00
Prudential UK Equity Index	0.66	0.63
Prudential UK Equity	0.72	0.32
Prudential With-Profits Cash Accumulation	N/A*	0.16

* Prudential were unable to provide transaction costs at 31 March 2024 in time for the production of the statement, therefore costs detailed as at 31 December 2023

** 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 deduct this charge through the bonus mechanism.

Appendix 3 – Performance of investment funds relevant to the PPA 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	2.54	9.12	9.08

Source: BlackRock as at 31 March 2024

AVC funds

Utmost Life and Pensions			
Funds used under the default IbA strategy	6 month performance (%)	1 year performance (%)	3year performance (per annum) (%)
Multi-Asset Moderate	11.43	12.00	3.39
Multi-Asset Cautious	9.06	6.52	-0.56

Source: Utmost as at 31 March 2024

As the net investment returns under the IbA 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.

IbA Strategy	1 year performance (%)
Member aged 25	12.00
Member aged 45	12.00
Member aged 55	12.00

Prudential	1 year performance (%)	5 year performance (per annum) (%)
Prudential Fixed Interest	-2.9	-3.9
Prudential Dynamic Growth	5.2	N/A*
Prudential UK Equity Index	7.3	4.1
Prudential UK Equity	5.3	2.7
Prudential With Profits Cash Accumulation	2.5	1.4

Source: Prudential as at 5 April 2024

*Prudential are unable to provide 5 year performance for the Prudential Dynamic Growth fund due to new funds being introduced or closed during this period.

Whilst it is important to understand the Plan's investment performance, it is also important to remember that pensions are a long-term investment. Members 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.