Morgan Stanley

# Morgan Stanley UK Group Pension Plan (the 'Plan')

## Annual statement regarding governance

The Trustee of the Morgan Stanley UK Group Pension Plan (the 'Plan') is pleased to present this Statement on governance covering the year to 31 December 2021.

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

- The investment options in which members' funds are invested (the Plan's default investment option, additional lifestyle options and self-select fund range);
- The requirements for processing financial transactions;
- Net return on investments;
- An illustration of the cumulative impact of transaction costs and charges;
- 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 **www.morganstanley.com/MSPENSIONUKchairstatement** and will be signposted in the annual benefit statements.

This Statement has been prepared by the Trustee, with advice from Mercer. Mercer provides the Trustee with pensions and investment consulting services.

### 1. Default investment option

A default arrangement is the investment fund or funds into which pension contributions are paid where members have not made their own choice (or "self-selected") 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 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 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.

1. Under legislation set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (the 'Administration Regulations').

## The most recent review of the investment arrangements

A formal comprehensive review of the default arrangement, the Diversified Default Option, was undertaken by the Trustee during the year.

The last review occurred at the September 2021 investment committee meeting and encompassed all aspects of the default strategy, in particular, the ongoing appropriateness of the strategy based on member analysis. It considered the following aspects:

- each component of the default investment option including the growth phase structure,
- at-retirement objective including the appropriateness of this with respect to the Plan's membership and industry trends,
- the default investment option pre-retirement strategy and whether it remained an appropriate method of transitioning members to their final allocation at retirement,
- the objectives of the default investment option itself,
- industry trends generally and glidepath design,
- gender pension gap,
- key component funds,
- consideration of alternative lifestyles, and,
- Morgan Stanley Plan data, including how members were taking their benefits at retirement, member's projected pot sizes, demographic profile of the membership and in particular in the default investment option.

The conclusions of this review were:

- The Plan is set up to broadly provide a good member outcome for the majority of members, so long as members contribute a sufficient level and the investment returns are in line with or better than the assumptions.
- Drawdown remained a suitable at-retirement target for the Plan.
- A number of alternative glidepaths were considered, but it was agreed to make no changes to the default glidepath.
- It was agreed to not make available an annuity and cash lifestyles, but to make available a self-select fund which aims to track annuity prices.

A number of investment changes took place during the year both as a result of this review and as a result of other investment reviews.

Firstly, in 2020 (prior to the period covered by this statement), the Trustee 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. Between August 2020 and January 2021, the Active Absolute Return Fund switched to 100% Abrdn Global Absolute Return Strategies (GARS) as an interim measure. The implementation of the Nordea and Ruffer funds took place in January 2021.

On 22 March 2021, the Committee agreed to replace the UK and Overseas equity elements of the current Passive Global Equity Fund with the BlackRock ACS World ESG Equity Tracker Fund. Following this decision, on 5 May 2021, the Committee agreed to reduce the currency hedging to 50% of the BlackRock ACS World ESG Equity Tracker Fund's element of the Passive Global Equity Fund. Implementation was concluded in October 2021.

On 1 December 2021, the Trustee approved the decision to replace the current BlackRock Institutional Sterling Liquidity Fund with BlackRock LEAF, a cash fund with higher ESG credentials than the BlackRock Institutional Sterling Liquidity Fund. The Trustee also decided to add the Legal and General Investment Management ("LGIM") Pre-Retirement Fund available as a self-select option, white labelled as the 'MS Pre-Annuity Fund'. Both of these changes took place in March 2022.

Changes were communicated to members during the year through a comprehensive communications campaign. Members were informed of what would happen if they took no action and what other courses of action they might want to consider for themselves.

The next default investment option review will be conducted no later than September 2024.

## 2. Requirements for processing 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 2021, in regards to cases across both this Plan and the Morgan Stanley UK Group Top-Up Pension Plan, was 97.7%. The detailed SLA achieved over 2021 are presented in the table below:

| REPORTING PERIOD | CASES RECEIVED | CASES COMPLETED IN SLA | SLA ACHIEVED |
|---|---|---|---|
| Q1 2021 | 4,104 | 4,008 | 97.66% |
| Q2 2021 | 4,223 | 4,058 | 96.09% |
| Q3 2021 | 4,353 | 4,283 | 98.39% |
| Q4 2021 | 5,407 | 5,340 | 98.76% |

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.

In Q4 two pricing errors were identified. A full review was undertaken and controls implemented to prevent reoccurrence of similar errors.

## 3. Charges and transaction costs

As required 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.

The Trustee is required to set out the on-going charges borne by members in this statement. These charges, also known as the total expense ratio ("TER"), are a measure of the total costs associated with managing and operating an investment fund. These costs consist primarily of management fees and additional variable expenses that the investment manager incurs in operating the underlying fund, such as fees to auditors, custodians and accountants and other operational expenses. The TER is paid by the members and is reflected in the unit price of the funds. It does not include transaction costs incurred within the fund, which are covered later in this section.

The Trustee is also required to disclose transaction cost figures that are borne by members separately. 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.

The charges and transaction costs have been supplied by Scottish Widows, the Plan's investment platform provider. When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance.

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.

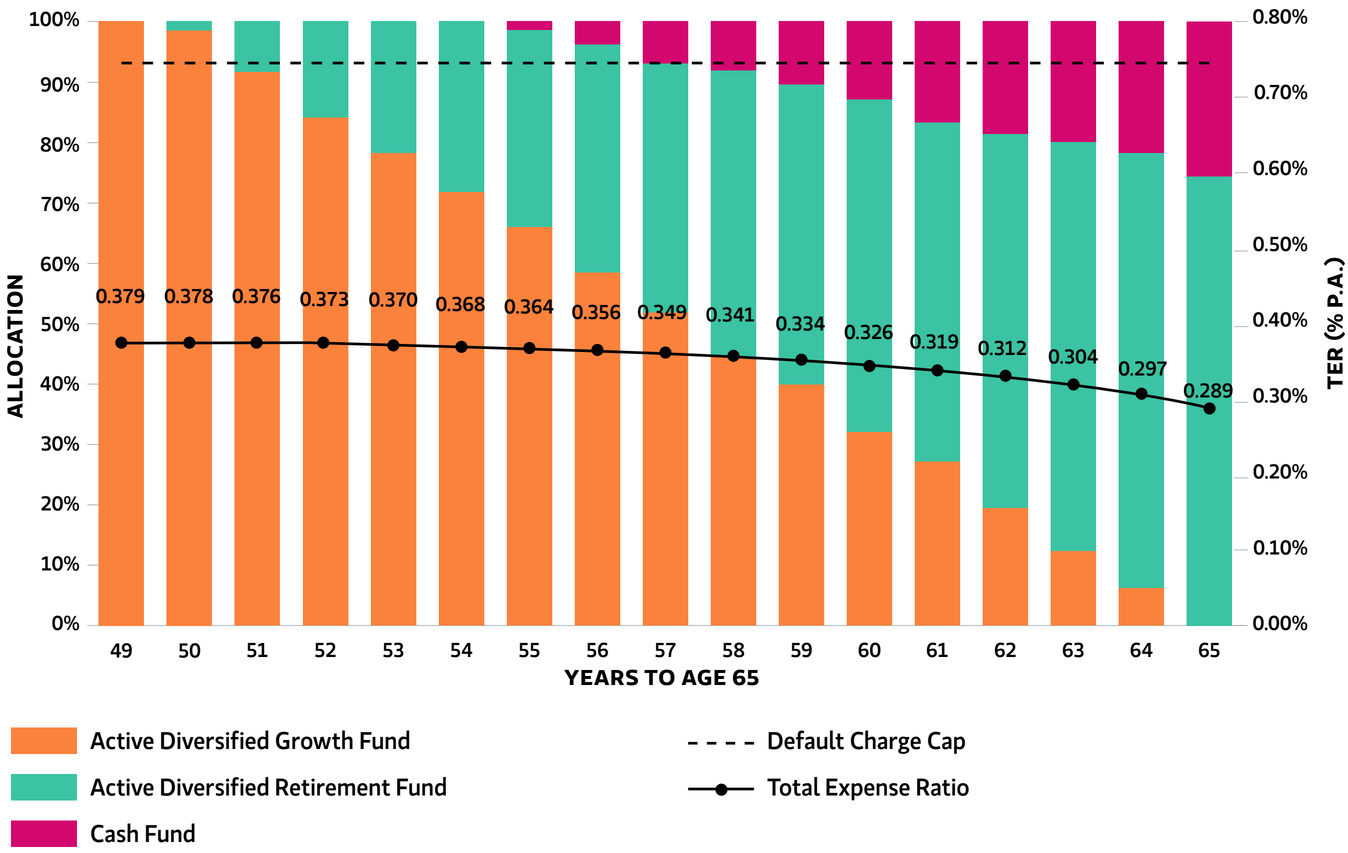
The following sections provide further detail on the charges applicable to the funds in the DDO as well as a summary of the charges across the funds in the self-select fund range.

### 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, investment platform, advisory and member communication costs are paid by the Company. The only exceptions are legacy AVC arrangements where members will also incur some 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 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.

The Plan complies with the regulations on charge controls introduced from April 2015. Specifically, the Plan's default investment option, the Diversified Default Option, 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 Diversified Default Option glide path is on the following page:




The following sections provide details on the charges applicable to the funds in the default investment option 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 | 0.147 | 0.147 | -0.018 |
| 22.5 | Active Absolute Return | 0.801 | 0.821 | 0.606 |
| 10.0 | Active Multi Asset Credit | 0.517 | 0.607 | 0.067 |
| 7.5 | Active UK Property | 0.667 | 0.717 | 0.080 |
| **Active Diversified Growth Fund** | | **0.351** | **0.379** | **0.105** |

**Source:** Scottish Widows, as at December 2021. An explanation of transaction costs is included on pages 8 - 12.

## Active Diversified Retirement Fund

The Active Diversified Retirement Fund is a bespoke 'fund of funds'. It is used within the DDO (beginning from age 50) 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 COMPONENT | ANNUAL MANAGEMENT CHARGE (% P.A.) | TOTAL EXPENSE RATIO (% P.A.) | TRANSACTION COSTS (% P.A.) |
|---|---|---|---|---|
| 35.00 | Passive Global Equity | 0.147 | 0.147 | -0.018 |
| 16.25 | Active Absolute Return | 0.801 | 0.821 | 0.606 |
| 10.0 | Active Multi Asset Credit | 0.517 | 0.607 | 0.067 |
| 3.75 | Active UK Property | 0.667 | 0.717 | 0.080 |
| 8.75 | Active Global Corporate Bond | 0.667 | 0.317 | 0.030 |
| 8.75 | Active UK Corporate Bond | 0.367 | 0.377 | 0.000 |
| 8.75 | Passive Gilt | 0.072 | 0.072 | 0.000 |
| 8.75 | Passive Index-Linked Gilt | 0.072 | 0.082 | 0.000 |
| **Active Diversified Retirement Fund** | | **0.297** | **0.338** | **0.097** |

**Source:** Scottish Widows, as at December 2021. An explanation of transaction costs is included on pages 8 - 12.

## 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 2021, the AMC and TER for the fund were the same, at 0.142% p.a. (based on data provided by Scottish Widows).

## Self-Select Fund Range

As at the Plan year end, the Plan's self-select Fund Range is comprised of 23 funds, including the three funds used in the DDO described above.

TERs deducted across the Plan's fund range (excluding AVCs) vary from 0.072% p.a. to 0.867% p.a. of the value of a member's investment in that fund. The TERs for the Plan's self-select Fund Range, also including the default funds noted above, are shown in the following table.

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 below table.

| 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 | 0.081 |
| Active Global Equity | 0.692 | 0.150 | 0.842 | 0.063 |
| Active Emerging Markets Equity | 0.817 | 0.040 | 0.857 | 0.163 |
| Active Emerging Markets Debt | 0.577 | 0.170 | 0.747 | 0.130 |
| Active Global Corporate Bond | 0.127 | 0.190 | 0.317 | 0.030 |
| Active UK Corporate Bond | 0.367 | 0.010 | 0.377 | 0.000 |
| Active UK Property | 0.667 | 0.050 | 0.717 | 0.080 |
| Active Multi-Asset Credit | 0.517 | 0.090 | 0.607 | 0.067 |

| FUND | ANNUAL MANAGEMENT CHARGE (% P.A.) | ADDITIONAL FUND EXPENSES (% P.A.) | TOTAL EXPENSE RATIO (% P.A.) | TRANSACTION COSTS (% P.A.) |
|---|---|---|---|---|
| Active Sustainable Equity | 0.717 | 0.150 | 0.867 | 0.260 |
| Active Diversified Growth * | 0.351 | 0.028 | 0.379 | 0.105 |
| Active Diversified Retirement * | 0.297 | 0.041 | 0.338 | 0.097 |
| Active Absolute Return | 0.801 | 0.020 | 0.821 | 0.606 |
| Passive UK Equity | 0.072 | 0.000 | 0.072 | 0.058 |
| Passive Global Small Cap Equity | 0.402 | 0.000 | 0.402 | 0.016 |
| Passive Emerging Markets Equity | 0.172 | 0.060 | 0.232 | -0.009 |
| Passive Global Equity | 0.147 | 0.000 | 0.147 | -0.018 |
| Passive US Equity | 0.072 | 0.000 | 0.072 | 0.057 |
| Passive Europe (ex-UK) Equity | 0.072 | 0.020 | 0.092 | 0.000 |
| Passive Japan Equity | 0.072 | 0.010 | 0.082 | 0.000 |
| Passive Pacific Rim (ex-Japan) Equity | 0.072 | 0.010 | 0.082 | 0.003 |
| Passive Gilt | 0.072 | 0.000 | 0.072 | 0.000 |
| Passive Index-Linked Gilt | 0.072 | 0.010 | 0.072 | 0.009 |
| Cash | 0.142 | 0.000 | 0.142 | 0.015 |

**Source:** Figures provided by Scottish Widows, as at December 2021.

## Legacy Additional Voluntary Contributions ('AVCs')

As at 31 December 2021, there are members of the Plan with AVC investments in unit-linked funds and with-profits funds with Standard Life. At the start of the year, there was one member with an AVC policy with Aviva, which was redeemed in March 2021. The Total Expense Ratio (TER) of the fund in which the Aviva policy was invested, was zero. This is because the fund charge was wrapped into the product charge.

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

| FUND | TOTAL EXPENSE RATIO (% P.A.) | TRANSACTION COSTS (% P.A.) |
|---|---|---|
| Pension Inflation Plus Fund* | – | 0.005 |
| Pension Millennium with Profits Fund* | – | 0.189 |
| Pension With Profits Fund* | – | 0.136 |
| Standard Life European Equity Pension Fund | 1.010 | 0.079 |
| Standard Life Far East Equity Pension Fund | 1.070 | 0.194 |
| Standard Life International Equity Pension Fund | 1.020 | 0.083 |
| Standard Life Managed Pension Fund | 1.020 | 0.122 |
| Standard Life Mixed Bond Pension Fund | 1.010 | 0.070 |
| Standard Life North American Equity Pension Fund | 1.010 | 0.283 |
| Standard Life Property Pension Fund | 1.030 | 0.204 |
| Standard Life Stock Exchange Pension Fund | 1.020 | 0.080 |
| Standard Life UK Equity Pension Fund | 1.010 | 0.403 |
| Standard Life Cash Pension Fund | 1.200 | 0.005 |

**Source:** Figures provided by Standard Life; as at December 2021.

* 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, 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 Standard Life 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 with Standard Life and the Standard Life Pension Inflation Plus fund reminding them of their investment and the alternative options available to them. The next review of the Plan's AVC options is scheduled for the second half of 2022.

## Illustrations of the effects of costs and charges

The Trustee fully supports transparency of costs for members. However, a key consideration for members is the performance delivered on a net of fees basis. In this respect, the Trustee believes that it is important to note that a cheaper fund may not necessarily deliver better value.

Using the costs and charges data as set out in this Statement, the Trustee has prepared illustrations detailing the impact of the costs and charges typically borne by a member of the Plan on their Retirement Account. 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".

The illustrations below have taken into account the following elements:

- Pension pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of costs and charges on a typical member's Retirement Account, the Trustee has provided an example below for a typical active member's pension pot.

The illustrations include member-borne costs, including TERs and transaction costs but does not include costs involved with trading in and out of the funds. Any transaction costs associated with buying and selling investments will be due to all investors buying and selling investment funds on the day and the actual amount (if any) is only known after the investments are traded. These costs are reflected in the unit price of funds.

As each member has a different amount of savings within the Plan and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has made a number of assumptions about what these might be. The assumptions are explained below:

- The "before charges" figures represent the savings projection assuming an investment return with no deduction of member borne costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne costs, including TERs and transaction costs.
- The transaction cost figures used in the illustration are based on those illustrated previously.

The illustration is shown for the default arrangement and the lowest charging and highest charging self-select fund in which members are invested. The funds illustrated, as well as the Default Diversified Option are:

- The fund with the highest member borne costs: **Active Absolute Return**
- The fund with the lowest member borne costs (based on average transaction costs in previous years): **Passive UK Equity**.

## Illustration 1: Active Member (median age)

| | DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT) | | ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE) | | PASSIVE UK EQUITY (LEAST EXPENSIVE) | |
|---|---|---|---|---|---|---|
| AGE | POT SIZE WITH NO CHARGES INCURRED | POT SIZE WITH CHARGES INCURRED | POT SIZE WITH NO CHARGES INCURRED | POT SIZE WITH CHARGES INCURRED | POT SIZE WITH NO CHARGES INCURRED | POT SIZE WITH CHARGES INCURRED |
| 38 | £94,403 | £93,905 | £94,102 | £92,679 | £94,796 | £94,727 |
| 39 | £105,500 | £104,439 | £104,856 | £101,845 | £106,344 | £106,198 |
| 40 | £116,825 | £115,132 | £115,794 | £111,027 | £118,182 | £117,947 |
| 45 | £177,031 | £171,074 | £173,351 | £157,172 | £181,959 | £181,107 |
| 50 | £243,627 | £231,341 | £235,996 | £203,712 | £254,116 | £252,310 |
| 55 | £313,682 | £293,100 | £304,179 | £250,651 | £335,756 | £332,581 |
| 60 | £379,720 | £349,998 | £378,390 | £297,992 | £428,124 | £423,073 |
| 65 | £435,226 | £396,891 | £459,162 | £345,738 | £532,630 | £525,089 |

### NOTES

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. The starting fund size is assumed to be £83,528.63 (median pot size for average active member), and this person is 37 years old. This member is assumed to retire at 65.
4. Inflation and salary increases are assumed to be 2.5% per annum.
5. The initial contribution amount is assumed to be £9,075.28 per annum (representative starting contribution amount).
6. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2021, shown earlier in this Statement.
7. From Scottish Widows' figures, the default strategy has an assumed TER of 0.379% p.a. more than 15 years from retirement, falling to 0.289% p.a. at retirement.
8. 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 three years to 31 December 2021; consequently our assumptions are based on averages of the transaction costs for these three years, as follows:

| | |
|---|---|
| **DEFAULT ARRANGEMENT:** **DIVERSIFIED DEFAULT OPTION** | 0.149% p.a. more than 15 years from retirement, falling to 0.098% p.a. at retirement. |
| **MOST EXPENSIVE FUND:** **MS ACTIVE ABSOLUTE RETURN** | 0.697% p.a. |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:** **MS PASSIVE UK EQUITY** | 0.000% 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.

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

| | |
|---|---|
| **DEFAULT ARRANGEMENT:** **DIVERSIFIED DEFAULT OPTION** | 1.90% p.a. real return more than 15 years from retirement, falling to 0.125% p.a. real return at retirement. |
| **MOST EXPENSIVE FUND:** **MS ACTIVE ABSOLUTE RETURN** | 1.00% p.a. real return |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:** **MS PASSIVE UK EQUITY** | 2.50% p.a. real return |

## Illustration 2: Deferred Member (median age)

| | DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT) | | ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE) | | PASSIVE UK EQUITY (LEAST EXPENSIVE) | |
|---|---|---|---|---|---|---|
| AGE | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED |
| 44 | £72,631 | £72,248 | £72,387 | £71,292 | £72,950 | £72,898 |
| 45 | £74,121 | £73,342 | £73,624 | £71,414 | £74,774 | £74,666 |
| 50 | £82,028 | £79,050 | £80,132 | £72,026 | £84,600 | £84,174 |
| 55 | £89,673 | £84,222 | £87,216 | £72,643 | £95,717 | £94,893 |
| 60 | £95,226 | £87,363 | £94,927 | £73,266 | £108,295 | £106,977 |
| 65 | £97,656 | £87,770 | £103,318 | £73,893 | £122,526 | £120,599 |

### NOTES

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. The starting fund size is assumed to be £71,170.82 (median pot size for the average deferred member), and this person is 43 years old. This member is assumed to retire at 65.
4. Inflation is assumed to be 2.5% per annum.
5. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2021, shown earlier in this Statement.
6. From Scottish Widows' figures, the default strategy has an assumed TER of 0.379% p.a. more than 15 years from retirement, falling to 0.289% p.a. at retirement.
7. 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 three years to 31 December 2021; consequently our assumptions are based on averages of the transaction costs for these three years, as follows:

| | |
|---|---|
| **DEFAULT ARRANGEMENT:** **DIVERSIFIED DEFAULT OPTION** | 0.149% p.a. more than 15 years from retirement, falling to 0.098% p.a. at retirement. |
| **MOST EXPENSIVE FUND:** **MS ACTIVE ABSOLUTE RETURN** | 0.697% p.a. |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:** **MS PASSIVE UK EQUITY** | 0.000% 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.

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

| | |
|---|---|
| **DEFAULT ARRANGEMENT:** **DIVERSIFIED DEFAULT OPTION** | 1.90% p.a. real return more than 15 years from retirement, falling to 0.125% p.a. real return at retirement. |
| **MOST EXPENSIVE FUND:** **MS ACTIVE ABSOLUTE RETURN** | 1.00% p.a. real return |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:** **MS PASSIVE UK EQUITY** | 2.50% p.a. real return |

## Illustration 3: Youngest Active Member

| | DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT) | | ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE) | | PASSIVE UK EQUITY (LEAST EXPENSIVE) | |
|---|---|---|---|---|---|---|
| AGE | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED |
| 18 | £813 | £813 | £813 | £813 | £813 | £813 |
| 19 | £1,637 | £1,629 | £1,633 | £1,609 | £1,643 | £1,641 |
| 20 | £2,478 | £2,457 | £2,467 | £2,405 | £2,493 | £2,490 |
| 25 | £6,950 | £6,788 | £6,857 | £6,410 | £7,073 | £7,050 |
| 30 | £11,899 | £11,457 | £11,634 | £10,449 | £12,256 | £12,192 |
| 35 | £17,377 | £16,490 | £16,834 | £14,522 | £18,119 | £17,988 |
| 35 | £17,377 | £16,490 | £16,834 | £14,522 | £18,119 | £17,988 |
| 40 | £23,441 | £21,916 | £22,494 | £18,630 | £24,753 | £24,522 |
| 45 | £30,153 | £27,766 | £28,653 | £22,773 | £32,259 | £31,889 |
| 50 | £37,575 | £34,065 | £35,358 | £26,952 | £40,751 | £40,193 |
| 55 | £45,251 | £40,404 | £42,655 | £31,167 | £50,359 | £49,555 |
| 60 | £52,162 | £45,963 | £50,597 | £35,418 | £61,229 | £60,109 |
| 65 | £57,532 | £50,167 | £59,241 | £39,705 | £73,528 | £72,006 |

### NOTES

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. The starting fund size is assumed to be £813.24 (median pot size for the youngest member), and this person is 18 years old. This member is assumed to retire at 65.
4. Inflation and salary increases are assumed to be 2.5% per annum.
5. The initial contribution amount is assumed to be £799.98 per annum (representative starting contribution amount).
6. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2021, shown earlier in this Statement.
7. From Scottish Widows' figures, the default strategy has an assumed TER of 0.379% p.a. more than 15 years from retirement, falling to 0.289% p.a. at retirement.
8. 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 three years to 31 December 2021; consequently our assumptions are based on averages of the transaction costs for these three years, as follows:

| | |
|---|---|
| **DEFAULT ARRANGEMENT:** **DIVERSIFIED DEFAULT OPTION** | 0.149% p.a. more than 15 years from retirement, falling to 0.098% p.a. at retirement. |
| **MOST EXPENSIVE FUND:** **MS ACTIVE ABSOLUTE RETURN** | 0.697% p.a. |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:** **MS PASSIVE UK EQUITY** | 0.000% 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.

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

| | |
|---|---|
| **DEFAULT ARRANGEMENT:**<br>**DIVERSIFIED DEFAULT OPTION** | 1.90% p.a. real return more than 15 years from retirement, falling to 0.125% p.a. real return at retirement. |
| **MOST EXPENSIVE FUND:**<br>**MS ACTIVE ABSOLUTE RETURN** | 1.00% p.a. real return |
| **LEAST EXPENSIVE FUND AND HIGHEST EXPECTED INVESTMENT RETURN:**<br>**MS PASSIVE UK EQUITY** | 2.50% p.a. real return |

## Illustration 4: AVCs

| | MOST EXPENSIVE FUND: STANDARD LIFE UK PENSION FUND | | LEAST EXPENSIVE FUND: STANDARD LIFE MIXED BOND PENSION FUND | |
|---|---|---|---|---|
| AGE | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED | BEFORE CHARGES | AFTER ALL CHARGES + COSTS DEDUCTED |
| 57 | £33,000 | £33,000 | £33,000 | £33,000 |
| 58 | £33,962 | £33,483 | £32,775 | £32,422 |
| 59 | £34,952 | £33,974 | £32,552 | £31,854 |
| 60 | £35,971 | £34,471 | £32,331 | £31,295 |
| 61 | £37,020 | £34,976 | £32,111 | £30,747 |
| 62 | £38,099 | £35,489 | £31,892 | £30,208 |
| 63 | £39,209 | £36,009 | £31,675 | £29,679 |
| 64 | £40,352 | £36,536 | £31,459 | £29,159 |
| 65 | £41,529 | £37,071 | £31,245 | £28,648 |

**NOTES**

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. £33,000, and this person is 57 years old. This member is assumed to retire at 65.
4. Inflation is assumed to be 2.5% per annum.
5. The member is assumed to be making no further contributions to the Plan.
6. Charges assumed for are as provided by Standard Life as at December 2021, shown earlier in this Statement.
7. Standard Life have not provided transaction costs; consequently these are assumed to be nil.
8. The projected gross growth rate is based on Mercer assumptions, and is 5.0% p.a. and 1.75% p.a. (before inflation).

## Net return on investments

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

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

The tables below set out annualised net performance for the 5 and 10 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range.

## Lifestyles

| DIVERSIFIED DEFAULT OPTION | ANNUALISED RETURNS TO DECEMBER 2021 (%) | |
|---|---|---|
| AGE OF MEMBER | 5 YEARS | 10 YEARS |
| 25 | 7.7 | 7.8 |
| 45 | 7.7 | 7.8 |
| 55 | –* | –* |

*5 and 10y performance not available for the Mercer Diversified Retirement due to fund's inception date. Performance for the 10 years to retirement on the glide path unable to be calculated as longer-term performance not available for the Active Diversified Retirement Fund, which is part of the Diversified Default Option glide path.

**Source:** Scottish Widows and Mercer.

## Self-Select Funds

| | ANNUALISED RETURNS TO DECEMBER 2021 (%) | | | |
|---|---|---|---|---|
| FUND | 5 YEARS | 10 YEARS | SINCE INCEPTION | INCEPTION DATE |
| Active Global Growth Equity | 30.7 | 24.6 | 21.3 | 30/11/2009 |
| Active Global Equity | 15.1 | 15.1 | 15.0 | 13/10/2011 |
| Active Emerging Markets Equity | 4.4 | 6.8 | 7.0 | 13/10/2011 |
| Active Emerging Markets Debt | 1.8 | 2.1 | 1.9 | 13/10/2011 |
| Active Global Corporate Bond* | – | – | 5.7 | 14/11/2018 |
| Active UK Corporate Bond | 4.2 | 5.9 | 6.0 | 13/10/2011 |
| Active UK Property | – | – | 4.2 | 16/11/2018 |
| Active Multi-Asset Credit* | – | – | 4.8 | 15/11/2018 |
| Active Sustainable Equity* | – | – | 19.3 | 10/12/2018 |
| Active Diversified Growth | 7.7 | 7.8 | 6.7 | 02/09/2010 |
| Active Diversified Retirement* | – | – | 8.3 | 01/11/2018 |
| Active Absolute Return | 1.8 | 2.6 | 2.5 | 05/08/2010 |
| Passive UK Equity | 5.4 | 7.7 | 5.8 | 15/08/2006 |
| Passive Global Small Cap Equity* | – | – | 15.1 | 13/11/2018 |
| Passive Emerging Markets Equity* | – | – | 8.3 | 12/11/2018 |
| Passive Global Equity | 11.4 | 11.9 | 7.6 | 15/08/2006 |
| Passive US Equity | 16.3 | 18.1 | 13.5 | 15/08/2006 |
| Passive Europe (ex-UK) Equity | 10.2 | 11.8 | 7.6 | 15/08/2006 |
| Passive Japan Equity | 6.6 | 10.2 | 5.7 | 15/08/2006 |
| Passive Pacific Rim (ex-Japan) Equity | 7.8 | 8.6 | 9.5 | 15/08/2006 |
| Passive Gilt | 2.3 | 5.0 | 6.4 | 15/08/2006 |
| Passive Index-Linked Gilt | 5.0 | 6.9 | 7.9 | 15/08/2006 |
| Cash | 0.4 | 0.4 | 1.2 | 15/08/2006 |

**Source:** Scottish Widows and Mercer. *5 and 10y performance not available due to inception within the plan.

## AVC Funds

Net returns have been requested for AVC Funds but not yet provided at the time of writing this report. We will continue to ask for this information until it is received.

## 4. Value for Members

The Trustee is 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 Trustee considers 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. 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 Trustee completed a review of the Plan's DC section investments with relation to their value for members in June 2022, and considered the Plan year to 31 December 2021. As all administrative and investment platform costs for the DC section are met by the Company, the Trustee has only considered the investment charges (the AMC and other expenses that make up the TER) for these funds as part of this review. The overall quality of the service received has also been considered in this assessment rather than fees alone.

"Value" is a not a straightforward concept to quantify and can be open to broad interpretation. The Trustee's value for money assessment examined the current investment management charges relative to the fees for equivalent size mandates, as well as Mercer's Manager Research Ratings and a review of the performance of the Plan's investment funds in the context of their investment objectives. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

Where funds offered to members are highly rated by Mercer, are being offered at a competitive fee rate, and are performing satisfactorily over the longer term, the Trustee believes that they can be considered to be offering good value for members.

Based on these criteria, the majority of funds in the fund range of the DC section are highly rated, available at a fee rate that is below the median for the appropriate Mercer fund universe (accounting for mandate size) and have performed well over the long term.

The Trustee has also considered the value of the default investment option (Diversified Default Option) over the working lifetime of a member including how the total fee changes with the underlying fund allocations as members move towards retirement.

**Accordingly, the Trustee believes the investment options available within the Plan's arrangements represent good value for members. The Trustee believes that the majority of the funds have met their long-term objectives. Overall, the Trustee believes that members are receiving good value for the charges they pay.**

The Trustee reviews the Mercer Manager Research Ratings and investment manager performance on a quarterly basis. The Investment Committee also seeks to renegotiate investment manager fees from time to time, where appropriate, to continue to maintain good value for members.

The Trustee has also considered transaction costs as part of the value review. At this time, a meaningful assessment is difficult to undertake due to the lack of industry standards for comparison. Based on advice from its appointed investment advisers, the Trustee believes that transaction costs paid by members appear to be reasonable. The Trustee will continue to work with its advisers to monitor and assess the reasonableness of transaction costs incurred.

The fact that members are not required to contribute to these costs greatly reduces the cost impact and represents a significant element of the value offered to Plan members. This is different from the AVC arrangements, which are separately held in life insurance policies with Standard Life, where member-borne charges do include administration and communication services.

### 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.

## 5. 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 plans;
- 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:

- ESG and Sustainability in DC (03/03/2021);
- TPR Pensions Dashboards requirements (01/09/2021);
- Climate Change and TCFD Requirements (03/11/2021);
- Master Trust (25/11/2021);

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 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; and
- The Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Plan 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.

## Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

Signature: 

Name: **Alanna Lee**

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

Date: **21 July 2022**