

# Annual Chair's Statement – 1 April 2021 to 31 March 2022

## Introduction

This Statement has been prepared by the Trustee of the Johnson Matthey Employee Pension Scheme ('JMEPS') ('the Scheme') to demonstrate how the Scheme has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015 in relation to:

- Providing a default investment arrangement for members (the 'default arrangement')
- Processing financial transactions promptly and accurately
- Net investment performance
- Details and impact of charges and transaction costs borne by members
- Assessment of the value members received from being a member of the Scheme; and
- Meeting the requirements for trustees' knowledge and understanding.

The period this Statement covers is the Scheme Year from 1 April 2021 to 31 March 2022 ('the reporting period').

This Statement covers the following populations within the Scheme: **Career Average Revalued Earnings members** (with JMEPS Extra Accounts), **JMEPS Elements members** with DC assets through either an Investment Account or a JMEPS Extra Account and **JMEPS DC only members**.

The Trustee believes that it has taken the necessary steps to ensure compliance with the governance standards.

A copy of this document has been published on a publicly accessible website and can be found at:  
<https://elements.matthey.com/#/public-jmeps-trustee-governance-statement>

## Investment

### General investment principles

The Trustee's objective is to make available to members an investment programme via pooled funds which seek to generate income and capital growth which, together with new contributions from members and the Sponsor, will provide a fund at retirement with which to provide retirement benefits.

The Trustee's general investment aims are as follows:

- To offer a suitable default strategy appropriate for the profile of the defaulting members that takes into account their expected risk tolerances and potential target retirement outcomes; and
- To supplement the default strategy with a range of self-select investment options as well as two further Glidepath strategies, which offer sufficient investment choice to satisfy members' differing risk appetites and risk profiles, and retirement objectives.

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#### Investment strategy – relating to the Scheme's default arrangement(s)

Although members have the choice of where to invest, the Trustee must also make available a default arrangement for members that do not select an investment option.

During the previous reporting period, the default arrangement changed from the **Annuity Glidepath** to the **Drawdown Glidepath**. This change was implemented on 23 July 2020 following the previous review of the investment strategy in November 2018. This implementation was later than initially planned due to investment market volatility caused by the Covid-19 pandemic.

A formal review of the default investment strategy was carried out during the reporting period in November 2021. The Trustee also took the opportunity to revisit its investment beliefs framework and made a number of changes to reflect its objective to further integrate sustainable investment into the portfolio.

This review itself included an analysis of market 'megatrends' and a comprehensive evaluation of the membership profile and continued suitability of the default Drawdown Glidepath, alternative Glidepaths and self-select options. The review noted the following:

- Performance of the default Drawdown Glidepath strategy had been in line with the strategy's aims and objectives (further details on the underlying components of the strategy are detailed in the next section).
- For the majority of DC (Silver), Gold and Platinum (Elements) members, risk tolerance remains high in the early years and declines with age. However, there is dispersion around this amongst the membership, particularly for members with a DB pension, suggesting that a range of needs exist within the membership. The current investment strategy, to target drawdown at retirement, is appropriate for the majority of members, with complimentary glidepaths meeting wider needs.
- Membership analysis indicated a higher-than-average potential for investment engagement, reinforcing that the use of considered choice could be an effective way of meeting the range of needs across the membership.
- Discussions were had around the sustainable investment offerings and how to integrate the Trustee's sustainability beliefs into the JMEPS investment options, including the glidepaths and the self-select fund range. The Trustee is in the process of evolving the Global Equity Index Tracker Fund to integrate Environmental, Social and Governance (ESG) factors. This will include a focus on climate change mitigation.
- The review concluded that the risk profile and target of the default remained appropriate for the membership. The Trustee will prioritise integration of ESG factors into the Global Equity Tracker (this being JMEPS's most significant fund and key component of the glidepaths, including the default investment option).

As at the end of the reporting period, the Trustee is working with its advisers and pension provider Aegon, to finalise appropriate funds and establish the timing and phasing of any resulting changes. These are expected to take place during Q3/4 2022. Further information will be provided in next year's statement.

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#### Other default arrangements

The Trustee has undertaken two historic consolidation exercises where default mapping funds (or Glidepath strategies) were selected by the Trustee for members that did not make an investment choice of their own. The Trustee recognises that the funds involved would also be considered 'default' funds under the regulations and have identified them as such in the 'Charges and transaction costs' section in the appendix to this statement. All default mapped funds were considered within the scope of the November 2021 review. All funds had performed in line with their objectives and remain suitable. At the time of writing, the Trustee is continuing to work through a strategic review of the self-select fund range which it expects to conclude during Q3 2022.

A copy of the Scheme's Defined Contribution Statement of Investment Principles which includes the investment principles for the default arrangements and details of the Scheme's glidepaths, is enclosed with this Statement and is also accessible online at: <https://elements.matthey.com/#/public-jmeps-trustee-governance-statement>

#### Investment monitoring

The Trustee has sufficient and appropriate knowledge and understanding to provide sound and prudent oversight of the investment strategy and investment/risk management expertise to critically evaluate and oversee the investment strategy and associated risks. The Trustee receives professional investment advice in this capacity which supports the Trustee in its investment oversight and strategic decision-making process. The Trustee also has a dedicated DC investment manager day, during which it met with both BlackRock and Legal & General, the two largest DC investment managers under the Scheme. These sessions are a key part of the Trustee's investment stewardship programme and covered performance against objective, long-term investment outlook and integration of sustainable investment principles.

In addition, the Trustee regularly reviews the underlying performance of the funds within the default strategy and the self-select fund range. The Trustee receives quarterly investment performance reports which enables it to review the performance of all of the funds against their benchmarks. The Trustee receives detailed bi-annual reports from its investment adviser with in-depth performance analysis against a set of defined performance triggers. The Trustee's investment advisers will also raise significant issues with the Trustee when they arise so action can be considered expediently. Over the reporting period there were several instances of changes to fund managers or performance triggers warranting further consideration. These are highlighted below.

JMEPS passive index-tracking fund options all performed in line with their aims and expectations. There were isolated instances of some higher-than-expected tracking errors for the Emerging Market Index Fund. Further investigation has confirmed this is due to a difference in the timing of the Fund and benchmark pricing, rather than underperformance.

Changes to the Sustainability Fund manager and a potential sale of one of the fund managers that make up the JMEPS Global Equity Fund were also highlighted. The Trustee has evaluated these with its Investment adviser and, over the short-term is monitoring both managers closely. The appropriateness of further action will be considered as part of the strategic self-select fund review which will conclude after the end of the reporting period.

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The Trustee also undertook further review of the JMEPS Diversified Growth Fund. Performance of this Fund was not out of line with its performance expectations, but it was noted that returns over period had not been as close to its long-term equity target as it had been in prior years. The Trustee has monitored this Fund closely with its investment advisers and also met with the fund manager to discuss this in more detail. The Trustee is satisfied that the Fund continues to be an appropriate fit for JMEPS but will continue with close monitoring over the next year.

The Trustee is satisfied that over the reporting period, the performance of the investment funds has been consistent with their aims and objectives as set out in the SIP.

The Trustee has a policy on sustainable investing and monitors asset managers' sustainable investment practices, including the approach to ESG integration. Further details on the Trustee's ESG framework can be found in the Scheme's DC Implementation Statement which covers how the Trustee implemented its investment policies over the reporting period. This document can be found at the following address:

**<https://elements.matthey.com/#/public-jmeps-trustee-governance-statement>**

#### **Net investment returns**

The Trustees have provided the net investment returns for the Scheme's investment options. These returns can be found in the appendix and have been prepared taking into account the statutory guidance.

### **Financial transactions**

#### **Overview**

The Trustee has selected Aegon as its bundled DC provider. Aegon carries out the back-office administration and acts as the investment platform provider. Group Reward & Benefits carry out the majority of member facing administration functions.

All tasks are set up on the in-house administration system and are monitored by a workflow system that is managed by a senior member of the team. To help ensure work is accurate, all administration tasks completed are peer reviewed. Time critical financial transactions are flagged and prioritised and all work is monitored against a Service Level Agreement. Monthly contributions are processed by the Johnson Matthey payroll department and Aegon has a separate contribution processing team which ensures investment and banking transactions are checked and fully reconciled. There is also a separate Scheme Accountant who monitors the Trustee's bank account.

#### **Trustee administration monitoring**

The Trustee regularly monitors the core financial transactions of the Scheme. These include the collection and investment of contributions, transfers into and out of the Scheme, fund switches and payments out of the Scheme to and in respect of members. This is achieved through the review of quarterly reporting from Aegon, and the monthly monitoring of contribution payments calculated and paid by the Johnson Matthey payroll to Aegon.

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The Trustee monitors administration effectiveness against the Service Level Agreement (SLA) it has in place with Aegon. The SLA is dependent on each administration task as the table below illustrates:

Task	Service Level Agreement (SLA)
Investment of contributions	100% in 1 day (or 95% in 3 days if not fully automated)
Transfer-in payment	95% in 5 days
Fund switches	100% in 1 day
Payment of benefits including retirements and transfers	95% in 2 days

Please note that this table only shows administration tasks which constitute core financial transactions and has been simplified to better provide a meaningful narrative.

Over the reporting period, Aegon completed 97% of core financial transactions within SLA and 93% of all tasks (including core financial transactions) within SLA.

There is also a formal SLA in place with JM Group Reward & Benefits, who report against this and present the results to the JMEPS Admin, Audit and DC Sub-Committee (AADSC) on a regular basis. The results are reported back to the Board at each quarterly Trustee meeting. As the Scheme is fundamentally a hybrid DB/DC arrangement, the majority of members have both DB & DC benefits. Consequently, the Trustee monitors the SLA performance of DB and DC tasks together and is satisfied that during the reporting period, the overall administration provided by JM Group Reward & Benefits has been undertaken in a timely and accurate manner.

#### Contribution processing

Group Reward & Benefits has an agreed payroll timetable and escalation process in place with Aegon which provides a further structured control to monitoring contribution processing. Over the reporting period, monthly contributions were remitted by the Company and received and invested by Aegon in advance of statutory deadlines. Confirmation of the dates of each monthly investment cycle are advised to the Trustee and monitored on a quarterly basis.

#### Administration issues

Over the reporting period, there were no material administration errors reported. However, there were a small number of complaints raised regarding member satisfaction with administration and investment services, which have been addressed successfully.

#### Wider oversight

The Trustee last reviewed Aegon's bundled DC proposition in the 2019-2020 reporting period. This review confirmed Aegon's continued suitability for the Scheme and highlighted the bespoke services currently provided to the Trustee as a key benefit. As with all its advisers, the Trustee will keep Aegon under review and will formally assess its continued suitability on regular basis. The next full review of Aegon is expected to be conducted in early 2023.

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#### Conclusion

Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the scheme year.

#### Charges and transaction costs

##### Charges

The Total Expense Ratio (TER) applied to the funds available for selection by members of the Scheme as at 31 March 2022 are set out in the Appendix. TER is a measure of the costs associated with managing and operating an investment fund. These costs consist primarily of Annual Management Charges (AMC) and variable additional expenses such as trading, legal and auditor fees and other operational expenses. The Trustee has taken into account the DWP statutory guidance in preparing this information.

##### Transaction costs

Transaction costs and gains are those incurred by fund managers as result of buying, selling, lending or borrowing investments. These costs are allowed for within the unit price of each of the Scheme's funds.

The Financial Conduct Authority (FCA) has set out a specific method for providers and managers to calculate transaction costs and they are typically categorised as being explicit costs or implicit costs.

- **Explicit costs** are directly observable and include broker commissions and taxes.
- **Implicit costs** cannot be observed in the same way but occur, for example, where the price on placing a trade instruction is different to the price paid when the trade is executed. This can also lead to 'negative' transaction costs or small 'gains' where the price when placing a trade instruction is higher than the price when the actual trade is executed.

Details of the 'day to day' transaction costs for each of the Scheme's funds over the period available are set out in the Appendix. The Trustee has undertaken some benchmarking in conjunction with its advisers and has concluded that, based on the market data available, the transaction costs incurred over the period were reasonable and represent good value for members.

##### Illustration of costs and charges

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustee to produce a "£ and pence" illustration showing the compounded effect of costs and charges.

DWP statutory guidance sets out the elements that must be considered but there is some flexibility to reflect plan experience albeit illustrations do not have to be personalised. The Trustee, in conjunction with its advisers, has taken account of the DWP's statutory guidance and carefully considered the use of different representative members of the Scheme's membership when preparing these illustrations. These essentially represent illustrative members across each of JMEPS Silver, Gold and Platinum sections. The funds for the illustration were selected in line with the guidance.

These illustrations are presented in full in the Appendix to this statement and show the projected value, over different time horizons, for selected investment funds and representative members.

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#### Value for Members (VfM)

The Trustee remains committed to ensuring that members receive value for the services provided by the Scheme, and so in accordance with regulation 25(1)(b) of the Scheme Admin Regulations, the Trustee, with the assistance of its advisers (WTW), assessed the extent to which the charges and transaction costs above represent good value for members in July 2022.

The Trustee is legally required to undertake a VfM assessment on at least an annual basis, and report on the outcome of the assessment.

The assessment specifically considered:

1. The level of the charges and transaction costs members pay (benchmarked against the UK DC pension market)
2. The net investment returns of the Scheme's fund range and how the funds performed against their benchmarks
3. The scope and performance of services available to members through the Scheme including those relating to administration, investment and communications.

#### Assessment conclusion

The assessment compared the overall DC cost members bear against a number of comparators including similarly structured plans and the wider market. This comparison showed the charges members pay to be competitive and below average when compared to similar types of scheme and the wider occupational DC pension scheme market. Furthermore, the Company pays a subsidy to Aegon for administration costs, which partly reduces the Annual Management Charge (AMC) for employees. The assessment also considered the transaction costs members have borne over the period and determined that, based on the benchmarking sources available, the level of transaction costs was reasonable.

Whilst outside the direct scope of the VfM review, the Trustee also acknowledges that the Company meets all of the associated costs of the Credit Account element of members' benefit accrual (this is essentially a cash balance accrual on salary up to £51,936 per annum).

Investment returns net of fees are a key influence in the overall value members receive. The Trustee considered the performance of the Scheme's funds against their respective benchmarks with a specific focus on the component funds of the Scheme's default strategy – the Drawdown Glidepath.

The component funds of the Drawdown Glidepath had all performed in line with expectations over the short and long term. The evaluation acknowledged that the L&G Diversified Fund did not perform in line with its equity comparator but that it had exceeded its target of achieving a rate of the Bank of England Base Rate + 3.75% p.a. over the long term. Additionally, the fund has achieved this return at a volatility of around half of that of a pure global equity fund (which is ahead of its objective in this area).

The passively managed (index tracking) self-select funds had all tracked their respective indices within a reasonable level of tolerance over the long term. The performance of the actively managed funds was more mixed, with a number of funds achieving performance significantly below their benchmarks. In its assessment, the Trustee acknowledged that the nature of active investment meant that there was a greater chance of over or under performance compared to passively managed funds and when a fund performs



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below expectations, the level of value members receive is diminished. The actively managed funds are under a higher level of scrutiny by the Trustee and its advisers to ensure they provide value and remain appropriate over the long term. As part of a wider strategic review, the Trustee intends to look more closely at the active funds over the next reporting period. The Trustee continues to monitor all of the Scheme's investment options on a regular basis as covered earlier in this Statement.

The assessment also considered the services offered by the Scheme and highlighted:

- The Drawdown Glidepath which was introduced in 2020 as the Scheme's new default strategy. This glidepath is strongly aligned with the profile and expected needs of the membership alongside members' likely retirement objectives and was constructed following detailed membership analysis and risk profiling.
- In the previous reporting period, the Trustee negotiated a fee reduction with Aegon that provided reduced AMCs for the majority of members. This has delivered enhanced value which has continued to be realised throughout this reporting period.
- Members are part of a well governed scheme, which offers a broad suite of highly rated active and passive investment options to meet the needs of the membership. The Trustee Board has significant experience and expertise, operating under a robust governance structure and risk management framework.
- Aegon has over the longer term provided strong performance against its SLAs. The level of performance for this reporting period averaged at 93%, which although is lower than the Trustee's expectations, it is still relatively strong within the DC market.
- Members have a single point of contact with the in-house team, i.e. Group Reward & Benefits that provide full and joined up information on all benefits within the Scheme.
- As part of the administration service, members have access to information on all Scheme benefits in one place and this information feeds into joined up bespoke member communication materials provided by Group Reward & Benefits i.e. investment communications, online benefit statements, retirement guidance packs, pre-retirement seminars and newsletters.
- Members have access to Group Reward & Benefits and have the opportunity to arrange 1:1 sessions with representatives from the team for pre-retirement counselling, seminars and other pensions related topics. Feedback from the members is that these sessions are popular and informative.
- Access to annuity broking and income drawdown is facilitated through external providers for members wishing to access this at retirement.
- Members have access to a bespoke Scheme specific online projection tool which helps them to better understand the level of income they need at retirement.
- Members are able to use their JMEPS Accounts to fund part/all of their total tax-free cash at retirement under the Scheme.
- The overall benefit design including the cash balance element of the Scheme is unusual in the market and provides significant value to members. The cost of providing the cash balance element is met by the Company.

Overall, based on the analysis summarised above, the Trustee in conjunction with its independent advisers concluded that the Scheme offers **good value for members**. This is the top rating offered under the Trustee's assessment framework.

The Trustee continually seeks to ensure the Scheme provides 'value' and will complete the next assessment in 2023.



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### Trustee Knowledge and Understanding (TKU)

The Trustee has a strong TKU process in place which enables it, together with the advice available, to exercise its function as Trustee of the Scheme and ensure appropriate levels of TKU are maintained.

### Assessing TKU

The last TKU assessment was undertaken during the reporting period in February 2022. Using an independent questionnaire prepared by its advisers WTW, based on TPR's Code of Practice 7, the Trustee assessed the depth of their collective knowledge on various relevant issues relating to the Scheme (also covering trust law, investment and funding principles) as well as conversance with scheme documentation.

It also sought to identify how successful the Trustee had been in closing previously identified knowledge gaps. The results of this review showed improvements in most areas assessed and identified no significant knowledge gaps. Several areas were highlighted for refresher training. These areas will be incorporated into a training plan covering the next reporting period.

### Training

Formal training is incorporated into regular Trustee meetings and additional quarterly training sessions are run by the Scheme's legal advisers. Training topics are planned in advance and are based on the Trustee's training plan and other topical items. Examples of the formal training the Trustee has received during the reporting period include:

Date	Presenter	Training topic
28/04/2021	Mayer Brown (legal advisers)	The Pension Regulator's draft code of practice and the new powers
28/07/2021	Mayer Brown	Balance of powers in the Trust Deed & Rules
03/08/2021	Mayer Brown	Trust law, MND/MNT. Managing conflicts of interest
24/11/2021	Isio (DB Investment advisers)	ESG principles and setting ESG policy
25/11/2021	Isio	Investing in Private Credit and Private Markets
25/11/2021	Mayer Brown	Update of the consolidated Code of practice and acting in the best interests of members
01/12/2021	WTW (DC advisers)	Trends in DC retirement behaviour, DC investment design and global megatrends
03/02/2022	Mayer Brown	Corporate transactions and events: Trustee responsibilities
14/03/2022	Mercer	Member option exercises: Pension Increase Exchange, transfer value and trivial commutation/small pot exercises

Group Reward & Benefits circulate periodic technical updates to the Trustee, which supplements the quarterly training run by the Scheme's lawyers. This ensures the Trustee maintains an up-to-date knowledge on pension and trust law. The Trustee receives general updates from its advisers about matters relevant to the Scheme.

JMEPS Trustee is a member of PMI Trustee Group and benefits from training sessions offered by PMI. PMI certify annually that JMEPS Trustee meets Continuing Professional Development (CPD) requirements.

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A training log is maintained for each trustee director by the JMEPS Secretary. A central record is maintained of the Trustee's objectives for the Scheme and an update on the key activities undertaken. This framework helps to ensure the Trustee is constantly evaluating its performance against its objectives. During the reporting period, the majority of Trustee Directors logged over 30 hours of training activities.

#### **New Trustee Director induction process**

New trustees complete a robust induction process, typically during the first six months, which includes overviews of the Scheme's investment, funding, administration and communication strategy. All new Trustees are also required to complete the Pensions Regulator's trustee toolkit.

There was one new Member Nominated Trustee Director appointed in May 2021. As part of the induction process, the new Trustee Director undertook initial training with the Chair and Group Reward and Benefits to provide an introduction to the Scheme and the duties of a pension scheme Trustee. The Trustee Director is also in the process of completing the Pensions Regulator's Trustee Toolkit. The induction process will continue following the end of the reporting period.

#### **Ensuring effective operation of the Scheme**

In May 2019, the Trustee implemented a dedicated DC sub-committee which focuses on all DC aspects of the Scheme meeting at least three times annually. The Trustee also enhanced its approach to assessing and mitigating DC risks and developed a more comprehensive suite of investment performance monitoring materials.

During the reporting period, the Trustee assessed its effectiveness from a knowledge standpoint as part of its TKU assessment (as described above) and was satisfied that its objectives were being met. Furthermore, the Trustee monitors its 'effectiveness' on a monthly basis by reference to its Strategic Framework document, which serves the dual purpose of planning future monthly activities and documenting successful completion of each activity.

The Trustee intends to look again at its effectiveness as part of its preparation to comply with Pensions Regulator's revised code of practice – this is expected during the next reporting period.

The JMEPS Trustee Board is chaired by a professional independent trustee bringing significant expertise and knowledge to the Board through having fulfilled several high-profile industry and Trustee roles. The Trustee is supported by a Scheme Secretary, a team of professional advisers and Group Reward & Benefits.

The JMEPS Board believes it is important to be able to attract Directors from a diverse and inclusive population and that a Trustee Board is able to draw from a wide range of appropriate skills and experience. During the reporting period, a pensioner and an employee Member Nominated Trustee election were undertaken. This resulted in a new Member Nominated Trustee appointment in May 2021 (as covered in the previous section). In order to attract a diverse range of candidates, applications for the employee vacancy were taken online. Also, a short video explaining the role of a Trustee was created along with simplified communication materials. The new approach resulted in 19 applications and all candidates were interviewed with a shortlist of 8 employees go through to the election stage.

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When considering Scheme design change, or ensuring legislative requirements are met, the Trustee consults the Scheme's Trust Deed & Rules and associated documents and seek appropriate professional advice. All advisers are invited to attend the relevant sections in Trustee meetings which ensures the Trustee has access to appropriate advice before decision making. The Trustee also meets with its investment advisers (both DB and DC) on annual basis to provide direct feedback against the objectives it has set for them.

The Trustee's strategic investment aims have also been fully integrated into the DC adviser's fund investment performance reporting to better support the Trustee in monitoring the investments in line with the SIP.

The above processes ensure that the Trustee is conversant with the Scheme's documentation and that appropriate knowledge on trust law, funding and investment principles is maintained.

#### **Conclusion**

Based on these factors and in conjunction with the advice the Trustee receives from its professional advisers, the Trustee is satisfied that it has the combined knowledge and understanding required to properly exercise its function as Trustee.

#### **Statement of compliance**

On behalf of the Trustee of JMEPS, I confirm that the Trustee is comfortable that the Scheme met and exceeded the minimum governance standards as defined in the Occupational Pension Scheme (Charges and Governance) Regulations 2015 during the period 1 April 2021 to 31 March 2022.

The Trustee has also reviewed the Pensions Regulator's expectations set out in the DC Code of Practice and will continue to monitor adherence on an ongoing basis.

**Signed by the Chair on behalf of the Trustee of the Scheme:**

*Roger*

**Date:** 27 October 2022