



BCF PENSION TRUST VALUE FOR MEMBERS ASSESSMENT

July 2024

Private and Confidential



INTRODUCTION

Trustee Duties

This report has been prepared for the Trustees of BCF Pension Trust ("BCF" or the "Trust").

Following the 2015 amendments to the Occupational Pension Scheme (Scheme Administration) Regulations 1996 ("the Regulations"), trustees are required to annually assess the value provided by occupational pension schemes' money purchase benefits.

Two key documents published by the Pensions Regulator ("TPR") set out how schemes might conduct assessments:

- Value for members guide, last updated in September 2019.
- Single Code of Practice, came into force in January 2024, which replaces the previous Code of Practice 13: Governance and Administration of Occupational Pension Scheme providing money purchase benefits.

Following the joint consultation published in July 2023 by the Department of Work ("DWP"), Financial Conduct Authority ("FCA") and the Pensions Regulator ("TPR"), the Government have proposed that contract-based DC pension schemes will be required to publish their historic net investment returns and a breakdown of their UK investments, especially through UK equities. It remains unclear exactly when the new requirements will come into effect for trustees.

In addition to this, smaller DC pension schemes with less than £100 million in assets and who have been in operation for at least three years are required to prepare a more detailed value for money ("VfM") assessment of how their scheme delivers value for members. The assessment will have to include:

- Cost and charges (compared to three other schemes)
- Fund investment net returns (compared to three other schemes)
- Self-assessment of scheme governance and administration criteria.

If trustees are unable to demonstrate their scheme provides good value for members when compared to the other schemes, they will need to consider transferring their members to an alternative scheme that does offer better value for members.

The rationale behind the new requirements is to determine whether the members will benefit and receive good value over the long term in their existing scheme, or if they would be better off in a different scheme.

For the relative assessment of cost and charges and the net investment returns, the trustees can compare themselves with occupational pension schemes which have total asset equal to or exceeding £100 million or a personal pension scheme which is not investment-regulated.

Being both an occupational pension scheme and a scheme with less than £100 million in assets, BCF is required to complete the extended VfM assessment.

SUMMARY

The following pages propose an assessment for the value delivered to members by the Trustees of BCF Pension Trust during the year ending 31st March 2024.

We propose the following summary text to include in the Chair Statement:

“Overall, the Trustees have concluded, given its investment beliefs, the Scheme continue to deliver good value for members. The main reasons for this are:

- Strong governance and oversight from the Trustee Board; and
- A default investment strategy designed to account for the investment beliefs of the members.

Over the 2023-2024 scheme year, the Trustees undertook the following steps to improve value for members:

- During the year under review, the Trustees completed a triennial review to assess the suitability of the default strategy for the current membership. The review found that the default remains suitable for members, given the investment restrictions.
- The Trustees are exploring the opportunity to increase diversification and returns by accessing equities through derivatives.
- In the previous Scheme year, the Trustees, with the support of their investment consultant, had negotiated and agreed a management fee reduction from 0.5%p.a. to 0.4%p.a. with Evelyn Partners. This was effective from Q2 2023.
- Further investments were made into secured loans which improved the overall net return to members.
- The Trustees continue to invest in improving member communication.”

NEW DETAILED ASSESSMENT – COSTS AND CHARGES

The National Employment Savings Trust (NEST), People's Pension, and Smart Pension have been selected as comparator DC schemes because they are all authorised master trusts with total assets exceeding £100 million as of 31 March 2024.

The BCF Trustees have had discussions with one of the above comparator schemes about a transfer of members' rights if BCF Pension Trust were wound up. However, the terms of a potential transfer were inconclusive given the comparator scheme would not be able to fully comply with the Brethren's investment beliefs.

The table below compares the charges and transaction costs of BCF versus the comparator schemes. BCF does not have a combination charging structure or any employer subsidised charges.

Compared to the three other schemes, BCF's charges are broadly comparable, with some important points to note:

- BCF is a much smaller scheme, with assets of around £65million, compared to £40billion, £30bn and £8bn respectively for the three comparators. This means the administration costs are comparatively more expensive (50bps) than for the other schemes;
- BCF's asset allocation is much more heavily invested in cash and bonds;
- BCF negotiated a 0.10% reduction in fees for the gilts mandate which came into effect during the Scheme year.

Default Fund	Charges	Transaction costs
BCF Scheme	Annual management charge of 0.65%	None
NEST 2040 Retirement Fund	There is a contribution charge of 1.8% on each new contribution + an annual management charge of 0.3% on the total value of pension pot each year	0.046%
People's Pension Global Investments (up to 85% shares) Fund	Annual management charge of 0.5% + annual fee of £2.50 (a charge rebate of 0.1% for savings over £3,000 and 0.3% for savings over £50,000)	0.060%
Smart Pension Smart Sustainable Growth Fund	Annual management charge is 0.3% + annual fee of £21 (a monthly fee of £1.75)	0.008%

Sources: Nest Scheme annual report and accounts 2022/23, The People's Pension annual report and financial statements for the year ended 31 March 2023 and Smart Pension Chair Statement 30 June 2023.

NEW DETAILED ASSESSMENT – NET INVESTMENT RETURNS

The Trustees place more weight on the performance of investment returns over costs and charges.

The Trustees noted that due their investment restrictions, BCF's investment strategy is quite different to the other comparator strategies, and therefore it is difficult to compare the performance of each.

The net investment returns both in the short term (i.e. one-year period) and a longer more sustained period (i.e. 3-year and 5-year periods) for BCF's default strategy, as well as the comparator schemes are listed below. BCF provides only a default strategy for members; there are no self-select funds available.

Net Investment Returns of Default Fund up to 31 March 2024	1-year (%)	3-year (%p.a.)	5-year (%p.a.)
BCF Scheme Default Strategy	4.4	2.0	1.4
NEST 2040 Retirement Fund	14.3	5.7	7.3
People's Pension Global Investments (up to 85% shares) Fund*	13.3	3.1	6.0
Smart Pension Smart Sustainable Growth Fund	17.3	8.1	7.5

* As at 31 May 2024

It is noted that BCF is an authorised not-for-profit master trust independently verified as in accordance with the Master Trust Assurance principles developed by The Pensions Regulator (TPR) and Institute of Chartered Accountants of England and Wales (ICAEW).

The Trustee cannot hold investments within the Trust that infringe the core beliefs of the Brethren. As such, the asset allocation of BCF is more conservative, with the majority of the portfolio being invested in bonds, government gilts and cash during the Scheme year.

BCF's performance is lower than that of its comparators over the 1, 3, and 5-year periods. This is expected due to the lack of high return-seeking assets, like equities, in BCF's portfolio compared to others. However, their performance aligns with expectations based on BCF's current asset allocation.

Risk-adjusted returns have not been considered in this comparison, but for BCF, they would be likely be better than the comparators due to the asset choices.

The Trustees are satisfied that given the investment restrictions; the Scheme continues to offer good value. The Trustees continue to assess the suitability of various investment opportunities (including a potential investment in derivatives or private equity) to improve the diversification of the portfolio and to target better returns for members.

NEW DETAILED ASSESSMENT – GOVERNANCE AND ADMINISTRATION

Area Reviewed	Key Highlights
<p>Promptness and accuracy of core financial transactions</p>	<ul style="list-style-type: none"> Quarterly administration reports are prepared by the Scheme's third-party administrator that report on core financial transactions. These reports include details of contributions received and processed, funds invested, transfers of member assets both in and out of the Scheme, member payments processed, member quote requests processed, and death benefits processed. The Quarterly reports note the actual performance against the SLAs to assure the Trustees that the transactions are being processed promptly. In addition, the Scheme management have a weekly progress call with the third-party administrator to monitor progress on all outstanding cases. The dedicated team of three staff at the administrator continue to focus exclusively on BCF work and have taken some additional processes from the wider teams – this has continued to drive improvement in response times to member enquiries, and the speed of processing core financial transactions.
<p>Quality of Record Keeping</p>	<ul style="list-style-type: none"> A thorough review of the Scheme's data was carried out in March 2024. 97.2% of BCF members passed all common data checks, and 96.8% passed all scheme specific checks. This represented an improvement in the pass rates for both common and conditional data and using the report from the third-party administrators to identify problem areas BCF scheme management continue to work with the administrators to improve this further. The Trustees recognise that accurate and in full data will be key to the success of the Pension Dashboard.
<p>Appropriateness of the default investment strategy</p>	<ul style="list-style-type: none"> The Trustees acknowledge that equities and corporate bonds may normally be deemed appropriate for long term investment strategy associated with retirement planning, but the Trustees will not hold investments within the Scheme that infringe the core beliefs of the Brethren. However, the Trustees, alongside their investment adviser, are exploring the opportunity to access equity returns through alternative vehicles, such as derivatives. This has been discussed with the Trustees and confirmed that an investment in derivatives would align with the Scheme's beliefs as a pooled fund is not being held by the Scheme. The default investment strategy continues to utilise assets that are aligned with the core beliefs of the Brethren.
<p>Quality of Investment Governance</p>	<ul style="list-style-type: none"> The Trustees continue to receive written advice in relation to the buying, selling and retention of investments, which will detail all relevant financially material considerations. The Trustees recognise the restrictions faced when setting the investment strategy but continue to explore investment opportunities that take in account the core beliefs of the Brethren, and increase return for members. This includes secured loans, property, private equity and derivatives.

NEW DETAILED ASSESSMENT – GOVERNANCE AND ADMINISTRATION

Area Reviewed	Key Highlights
<p>Level of trustee knowledge, understanding and skills to operate pension scheme effectively</p>	<ul style="list-style-type: none"> • The Trustees hold monthly Board meetings to discuss the running of the Scheme. On a quarterly basis, the investment advisers provide a monitoring report that highlights the performance of the default strategy over the previous quarter and the impact of this on member outcomes at retirement. • Over the Scheme year, there was an addition of a governance adviser to help improve on internal processes. • The Trustees, with the support of its investment consultant, engage in regular training sessions. In the Scheme Year, the Trustees have received training on: <ul style="list-style-type: none"> • The impacts of the Mansion House Reform on DC Pension Schemes; and • The Myners Principles and how they have help form the foundation to the way pension schemes are governed.
<p>Quality of communication with scheme members</p>	<ul style="list-style-type: none"> • The Trustees continue to invest in improving communication, and last year completed a major rebuild of the BCF website, including a complete rebrand and improved functionality. • The Scheme member booklet is currently being completely revised to bring it up to date and in line with the new branding. • Further member newsletters have been circulated to members, and more are planned to keep members updated. • Updated annual benefit statements , prepared in line with the simpler annual statement guidance were distributed to members in the last year.
<p>Effectiveness of management of conflicts of interest</p>	<ul style="list-style-type: none"> • The Scheme’s Conflicts of Interest policy has recently been updated to take into account further advice received. • All potential conflicts of interest are declared annually via the trustees’ COI returns. • Consideration of any actual or potential conflicts of interests is also a standing items at trustee meetings and these conflicts are mitigated or removed as appropriate. All conflicts are also noted on the Scheme’s COI Register.

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