

# The Annual Governance Statement 2023

This Statement has been prepared by the Trustee of BDO Pension Scheme ('the Scheme') in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended). It sets out how the Trustee has met the statutory defined contribution (DC) governance standards during the Scheme year ended 30 June 2023 in respect of all the DC benefits held in the DC section and the Additional Voluntary Contributions (AVC) arrangements within the Defined Benefit (DB) section during the year.

The Trustee continually reviews and assesses systems, processes and controls across key governance functions to determine whether these are consistent with those set out in the Pensions Regulator's:

- Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits.
- Regulatory guidance for defined contribution schemes.

The Trustee assessed the Presence of DC Code of Practice standards using the Pensions Regulator's self-assessment template. The Trustee assessed that all of the key features of a quality DC Scheme were present.

The template sets out the key quality features that underpin both the code of practice and regulatory guidance which the Pensions Regulator considers should be present in well-governed pension schemes.

In June 2017 the Trustee undertook a major review of the investment funds on offer to members and the investment charges they pay. This review resulted in the decision to transfer the investments to the Mobius Life investment platform. The decision was implemented during the 2017/2018 Scheme year. This brought about both a reduction in fees and an increase in administrative efficiency. The charges for the switch were borne by the unallocated funds. On an ongoing basis all administration charges are borne by BDO LLP ("the Employer"). During the 2018/19 Scheme year the Trustee arranged the provision of fund factsheets from the platform provider Mobius Life, which contain details of the underlying fund asset allocations, fees and past performance. A small reduction in platform fees was also negotiated.

In October 2023 the Trustee completed a Value for Members assessment.

The key conclusions were as follows:

- The costs and charges paid by members in the current arrangements are competitive versus the comparator schemes.
- For members aged 65, the current default arrangement has produced returns which have underperformed the average comparator over 1-year, but which have performed broadly in line with the average comparator over 3-years and 5-years. For members aged 55 and 45 the average comparator arrangements have delivered better returns over the last 1-year, 3 year and 5-year periods, which is partly explained by the higher risk tolerance of the comparator default arrangements versus the current default fund.
- The member select funds in the current arrangements are performing at, or close to, their stated performance objectives, with the exception of the BNYM real return fund, which similar to most diversified growth strategies with absolute return targets, tend to underperform in periods where broad market returns were challenging.
- In assessing the governance and administration of the current arrangements against the seven key metrics, Broadstone are satisfied that the Scheme is performing at a satisfactory level in these areas.

- Broadstone's overall assessment is that the current arrangements do provide value for members and therefore do not recommend the Scheme considers transferring benefits to one of the comparator arrangements.

### **Administration Standards & Core Financial Transactions**

- The Trustee has appointed professional advisers and has delegated the day to day running of the Scheme.
- The Trustee is aware that the responsibility of the running of the Scheme remains with it and has implemented adequate internal controls, which are reviewed periodically. The Trustee also has a sub-committee (the Accounts and Controls sub-committee) to review risk and controls within the Scheme.
- The Trustee has appropriate service agreements in place with its advisers and is aware of their key contacts.
- The Trustee uses a reputable professional pension administration service who are trained and completely conversant with the Scheme's Trust Deed and Rules.
- Service agreements set out the scope of work covered by professional appointments. Broadstone Corporate Benefits Limited, the appointed administrators of the Scheme, work to industry standards providing timely turnaround times for both non-financial and financial matters.
- The Trustee has oversight of the core financial transactions of the AVC arrangements. These transactions are very limited given the small number of members invested in these arrangements and the fact that the AVC funds are closed to new contributions. In the case where the AVC provider carried out both policy administration and investments services, each AVC provider makes available to the Trustee details of their internal controls, and they report annually to us on these matters. The Scheme's auditors consider AVC arrangements within the scope of their annual audits.

### **Issues arising during the Scheme year and how they were resolved:**

No issues arose during the Scheme year.

### **Plan for resolving any unresolved issues during the Scheme year:**

No plans were required.

### **Reporting to Trustee Directors**

The Trustee Directors receive an administration report 4 times during the Scheme year in advance of each meeting. The format of the administration report displays the activities in the Scheme.

- The Trustee considers all areas of risk and specifically risks of significant impact such as, fraud (including pension liberation), investment, management of costs, administration, regulatory requirements, operational procedures, communications and member understanding, corporate activity relevant to the Scheme (including employer covenant) and options at retirement.

## **Reporting to Trustee Directors (continued)**

- The Trustee identifies, evaluates, manages and monitors risk. By incorporating risks identified into a risk register the Trustee categorises in accordance to their likelihood of occurring and the potential impact each would have if it did occur.
- Mitigation and actions taken to control risks as far as possible are also reviewed twice yearly at an Accounts and Controls sub-committee meeting.
- The Trustee has reviewed all its data management procedures and those of its service providers and has a GDPR-compliant data protection policy in place.
- In line with Anti-Money Laundering regulations the Trustee holds an up to date register of beneficial owners.
- Internal control measures are in place that ensure any contributions are checked, reconciled and that they are paid in accordance with the payment schedules in place. As there are no active members there have been no contributions during the year.
- The Trustee uses a dual authorisation internet banking process for all investment and benefit payments.
- Any errors that may occur are resolved immediately. There were no errors during the Scheme year.
- The Trustee requires the administrators to provide details on a quarterly basis of leavers and potential forthcoming retirements.
- There is a nightly back up of all data and copies are stored off site and can be fully restored in any eventuality.
- Any member files not scanned on to the secure online document storage system are contained in fire resistant cabinets.
- All financial transactions are subject to annual audit requirements as part of the Trustee's annual report and financial statements.
- The Trustee's internal governance audit reviews the administrator's audited internal controls report and its business continuity and cyber risk measures.

In accordance with regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustee has reviewed the core financial transactions to ensure that they continue to be processed promptly and accurately. There have been no notifiable events arising during the year.

## **Costs and Charges borne by members**

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended), the Trustee is required to calculate the charges and transaction costs paid by members and assess the extent to which these charges paid by members represent good value for money.

Based on its assessment the Trustee concludes that funds adopted remain competitive and good value for money.

Lower overall fees have been secured for the members' assets as the majority of funds in which members are invested through the Mobius Life Investment Platform have lower charges than if the funds were invested directly with the investment managers. Under the Mobius Life Platform approach fees are comparable to those paid by larger institutional investors where the benefits of economies of scale result in lower fees. Furthermore, there are no fees charged to the members for administration services.

### **Costs Charges borne by members (continued)**

No administration costs are paid by the members. A professional administration service is used by the Trustee and the costs for this service are met separately by the employer. Alternative arrangements involving an insurance company providing a bundled arrangement to include administration could increase the cost levied on members. As such the Trustee considers the level of service members are receiving is of a high standard for which the members are not being charged.

Explicit charges paid by members are the fund annual management charges, fund expenses and Mobius platform fees. These are clearly identifiable and range from 0.08% p.a. to a maximum of 0.89% p.a. depending on the fund selected. The higher management charges relate to the specialised and actively managed funds.

Members are not charged additional fees on entry or exit from any of the investment funds available to them.

All investment funds have "transaction costs" which are not charged directly to the investor (member). However, these charges are taken from the fund and therefore reflected in the performance of the fund and in the overall return received by the investor (member).

Different funds have different levels of transaction costs depending on the number of assets that are bought or sold within the fund. It is generally expected that the more actively a fund buys and sells assets the higher the transaction fees will be.

A full list of charges for the Mobius Life funds in use (including the transaction charges) during the period from 30 June 2022 to 30 June 2023 is included below.

<b>MOBIUS LIFE INVESTMENTS</b>	<b>Transaction</b>	<b>Total Expense</b>	<b>Trustee</b>
<b>Fund Name</b>	<b>Fees</b>	<b>Ratio &amp; Platform</b>	<b>Investment</b>
		<b>Fee</b>	<b>Platform Fund</b>
			<b>Code</b>
Mobius Life / L&G UK Equity Index	0.02%	0.08%	N
Mobius Life / L&G World (ex UK) Equity Index	0.07%	0.15%	AE
Mobius Life / L&G Multi-Asset Fund	0.05%	0.20%	AB
Mobius Life / BlackRock DC Cash	0.01%	0.17%	GB00B00C3956
Mobius Life / L&G Pre-Retirement Fund	-0.01%	0.11%	EK
Mobius Life / BNYM Real Return Fund	0.12%	0.89%	GB00B01XJC27
Mobius Life / L&G Managed Property Fund	-0.55%	0.67%	C
Mobius Life / L&G Ethical UK Equity Index Fund	0.02%	0.25%	DK
Mobius Life / BlackRock Aquila Connect Corporate Bond All Stocks	0.00%	0.09%	GB00B00C3733

The investment providers' annual management charges are assessed annually as part of the DC review and considered against other providers in the market.

The 2023 Value for Members review determined that the fees charged to members were competitive versus larger master trust arrangements.

## **Costs Charges borne by members (continued)**

The Bank of New York Mellon Real Return Fund may be considered a de facto default fund and has a charge in line with the default fund charge cap. The Trustee considers that the anticipated benefits of a lower volatility and diversified growth fund offset the costs.

Members choosing to invest in a typical tracker fund within the Scheme would pay fees in the region of 0.08% to 0.15% per annum (including additional fees).

Information on the annual management fees payable by members on all the funds available is available on request.

Full details of the annual management charges on each of the funds available to members are documented and are stored on the Scheme website under the generic information section which does not require a member to login. Fund factsheets for each of the funds in which members currently invest are also available on the website. <https://www.bdo.co.uk/en-gb/pension-scheme>.

The funds available for investment on the Mobius Life Investment Platform are pooled funds which are provided through insurance contracts. As such not all funds have International Security Identification Numbers (ISINs).

However, the table above lists the details of Mobius Life's internal fund codes from which the appropriate fund literature and manager factsheets can be obtained.

The Scheme's Statement of Investment Principles, prepared in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and regulation 2A (default investment strategy) of the Occupational Pension Scheme (Investment) Regulations 2005, the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, provides further details of the funds available for investment. A copy of this statement is contained as **Appendix A** of this Statement.

Details of the annual returns over 1, 3, and 5 years are contained in **Appendix B**.

**Appendix C** provides an illustrative example of the cumulative effects over time of charges and costs borne by members. Three separate periods of accumulation have been considered for the illustrations covering a 30 year period, a 20 year period and a 10 year period.

A proportionate approach has been adopted for assessing the AVC arrangements in the DB section on the basis that the AVC holdings are relatively modest. The Trustee has taken action to reduce charges for members with AVC holdings where possible, to ensure that these provide good value for members.

### **Default arrangement**

The DC Section closed in 2011 and the Trustee has not historically used a default fund as the Scheme has not been used for auto-enrolment qualifying purposes. The Trustee understands the switch to the Investment Platform may have created a de facto default fund, the Invesco Perpetual Global Targeted Returns Fund, which was replaced with the Bank of New York Mellon Real Return Fund in April 2021 and the Trustee will undertake its fiduciary duty to monitor this fund (as it has always done) to ensure its performance and charges remain good value for members with the members having the choice to make a switch to any alternative funds they choose.

The annual management fees (along with transaction fees) payable by members are covered in the table above. Members do not pay towards any of the administration costs of running the Scheme, these are met by the employer separately.

Although members do not directly cover the other costs associated with the Scheme, as these are met by the employer, the Trustee carefully considers the other costs incurred and monitors these to ensure the employer receives good value too. The Trustee also receives regular updates from the Investment Consultant to ensure that fund performance is broadly in line with expectations.

Further details of the investment arrangements are set out in the Scheme's Statement of Investment Principles contained as **Appendix A** of this Governance Statement.

### **Communicating with members**

- The Trustee endeavours to provide Scheme communication that is accurate, clear, understandable and engaging.
- The Trustee, with its advisers, carefully consider all member communications and review common communications periodically (such as retirement quotation packs and benefit statements). The Trustee works closely with the Scheme advisers to try to ensure member interests are understood and represented in all decision making.
- Members are regularly informed about the importance of reviewing their investment choices.
- Extensive retirement packages are sent to members which cover all disclosure requirements, including clear details of the retirement choices available to them, how they work and details of the Government's Pension Wise service.
- Ad hoc announcements are sent periodically as the Trustee deems necessary.
- The Trustee has, in 2018, issued its privacy notice covering General Data Protection Regulation requirements to all members. A copy of the notice is also available on the member website.
- The Trustee believes the ability to review and tailor member communications in a way that may not be possible in other arrangements, and where members have associated DB benefits, also provides clear and understandable information for members as they approach retirement.

### **Value for Members**

The Trustee is required to consider the extent to which the charges and transaction costs borne by the members in relation to the Scheme represent good value for members.

- There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The Trustee has already commented on where members receive value for money. The Trustee, together with the advisers discussed and reviewed the DC Section in the final quarter of 2023. They considered the investment fund options available along with the management charges for those funds. The Trustees concluded that the charges were competitive versus comparator master trust schemes and performances were broadly lower than the comparator schemes, which is partly explained by the higher risk tolerance of the comparator default arrangements versus the current default fund. All administration and professional fees are met by the employer.
- The latest full review of the value for members was completed in 2023.
- The conclusions of this review have already been summarised in this Statement.
- The Trustee believes that the management charges within the DC funds continue to be reasonable and justifiable and offering value for money.

### **Sufficient Knowledge and Understanding**

**Actions taken by the Trustee to gain the appropriate knowledge and understanding required to effectively run the Scheme with good governance.**

- All Trustee Directors have completed the online Trustee Toolkit and completed new modules or amended modules as they are added or changed. In addition, the Trustee Directors will revisit modules to refresh their knowledge periodically as necessary.

## **Sufficient Knowledge and Understanding (continued)**

- The Trustee Directors receive regular training and are encouraged to identify gaps in their knowledge through regular discussions of pertinent pension issues from advisers and own continual development.
- The Trustee Directors receive regular investment training.
- The Trustee maintains a training register to keep a log of all training undertaken. The log is assessed from time to time to identify knowledge gaps.
- The Trustee Directors are conversant with the Trust Deed and Rules and the powers granted to them.
- The Trustee Directors are conversant with the Statement of Investment Principles maintained under Section 35 of the Pensions Act 1995.
- The Trustee takes regular investment advice from its Investment Consultant on matters relating to the Scheme investments and investments for occupational pension schemes.
- The Trustee Directors keep up to date with developments in the DC landscape through regular updates from advisers and awareness of new guidance issued by the Pensions Regulator. This will also include regular discussions on principles of DC investments.
- The Trustee Directors have sufficient knowledge of pensions law and if advice is required it will be sought from the Scheme's legal advisers.

During the Scheme year the Trustee has met the requirements of Section 247 and 248 of the 2004 Act (requirement for knowledge and understanding) by holding regular Trustee meetings, with at least four per year set aside for monitoring the Scheme governance and ensuring it is run in accordance with the Scheme rules and in line with the Pensions Regulator's guidance notes. Additional ad hoc meetings by conference call or as a 'special' meeting are also held when required.

The Trustee Directors, together with assistance from their professional advisers, use their combined knowledge and understanding of pensions law, specific Scheme documentation, legal requirements and the Pensions Regulator's guidance to ensure that the Scheme is run effectively and members' benefits are paid in accordance with the Scheme rules and to carry out the fiduciary duties required of them. This combined knowledge helps the Trustee to ensure that good Scheme governance is a priority and identify where any improvements can be made to existing procedures and processes. The Trustee Directors' knowledge of the Scheme rules ensures that they can consider non-standard benefit request options and whether they are permissible under the current rules and whether legal opinion is required and / or a rule change needed.

Ensuring good governance helps the Trustee determine whether the Scheme is good value for money and whether members and beneficiaries are being treated fairly and seeks to safeguard the interests of all members and beneficiaries.

The Trustee is currently using the Pension Regulator's Self-assessment template – "Presence of DC code standards" to assess whether it can improve further the Scheme governance and whether better practices can be established.

This Governance Statement along with its Appendices will be made publicly available on the Scheme website at the following address: <https://www.bdo.co.uk/en-gb/pension-scheme>.

This statement regarding DC governance was approved by the Trustee and signed on its behalf by:

**R J Faulkner**.....

R Faulkner  
Chair of Trustee

**08/12/2023**.....

Date





BDO Pension Scheme – DC Section

Statement of Investment Principles

July 2020

## BDO Pension Scheme – DC Section

### 1. Introduction

This Statement of Investment Principles in respect of the DC Section of the BDO Pension Scheme ("the Scheme") has been drawn up by the Directors of the BDO Pension Trustees No.2 Limited ("the Trustee") in accordance with Section 35 of the Pensions Act 1995, amended by Section 244 of the Pensions Act 2004 and the Occupational Pension Plans (Investment) Regulations 2005 and Occupational Pension Scheme (Investment and Disclosure) (Amendment and Modification) Regulations 2018, and the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

This Statement will be reviewed by the Trustee at least every three years and immediately following any significant change in investment policy.

The Statement is published and is freely available to the public as well as Members of the Scheme.

The areas covered in this statement are:

- Section 2. The Decision Making Process
- Section 3. Investment Objectives
- Section 4. Investment Strategy
- Section 5. Investment Manager Structure
- Section 6. Risks
- Section 7. Environmental, Social and Governance (ESG)
- Section 8. Conflicts of Interest
- Section 9. Incentivisation of Investment Managers
- Section 10. Portfolio Turnover Costs

### 2. Decision Making Process

#### The Trustee

The investment of the Scheme's assets is the responsibility of the Trustee and the Scheme Rules gives the Trustee broad powers on investment. There are no restrictions (however expressed) on any power to make investments by reference to the consent of the Employer.

The Trustee's policy is to seek professional advice on investment strategy. It decides on the investment strategy after considering investment advice from the Investment Consultant. The Trustee recognises that its level of investment expertise must be kept under review in order to be able to critically evaluate this advice.

The Trustee Directors meet regularly and ensure that adequate time is set aside to discuss investment issues. In determining their investment strategy, the Trustee Directors address:

- the need to consider a full range of asset classes,
- the risks and rewards of a range of alternative asset allocation strategies,
- the suitability of each asset class,
- the need for appropriate diversification, and
- the Scheme's Investment Objectives.

### The Investment Consultant

The Investment Consultant advises on an investment strategy appropriate to the investment objectives. The Investment Consultant also monitors and reports on the performance of the Investment Managers.

The Investment Consultant is paid on a fixed fee or a time cost based fee, and their appointment is reviewed from time to time by the Trustee.

Broadstone Corporate Benefits Limited has been appointed as Investment Consultant to the Trustee on the basis that the Trustee Directors believe it to be suitably qualified and has the appropriate knowledge and experience of the management of the investments of such schemes.

Broadstone Corporate Benefits Limited is authorised and regulated by the Financial Conduct Authority.

### The Employer

The Trustee will consult with the Employer as part of the process for deciding on the investment strategy.

### Delegation

The Trustee has a policy of delegating all day-to-day powers of investment to the Investment Managers who are authorised and regulated under the Financial Conduct Authority.

The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

## 3. Investment Objectives

### Investment Objectives

The Trustee's objectives with regard to investing Scheme assets are to adopt a relatively risk-averse approach but recognise the need to balance aversion to risk with the achievement of a satisfactory investment return.

The Trustee has taken into consideration that:

- Members' benefits are maximised by achieving maximum investment returns
- Individual Member's financial profiles and attitudes to risk may vary

## BDO Pension Scheme – DC Section

### 4. Investment Strategy

The Scheme's Investment Strategy is kept under regular review.

The Trustee, with advice from the Investment Consultant, selected a number of managers who offer a wide range of funds. The Trustee has made available a variety of actively managed and index tracking funds.

#### Default Investment Fund

The Trustee decided that there is no default fund as they offer a core set of funds from which members may select their investments.

#### Kinds of investments held and attitude to risk

The Trustee's approach has been to allow members freedom to choose from a relatively small but diverse panel of funds. The Trustee's view is that on the one hand, the panel should not be too large in order to avoid complicating members' decisions. However, the panel needs to be sufficiently varied to allow members the opportunity of matching their particular individual risk profiles.

It is up to the individual member to judge the appropriate balance between different funds for their particular circumstances. Information is provided about each particular fund. Members are free to take advice from parties authorised to do so regarding the appropriate selection of funds. The funds offered and the relevant annual management charges (including platform fees) are set out in the table below:

Asset Class	Fund	AMC (p.a.)
UK Equities	LGIM UK Equity Index	0.08%
Overseas Equities	LGIM World (ex-UK) Equity Index	0.13%
Multi-Asset (Passive)	LGIM Multi-Asset Fund	0.20%
Cash	BlackRock DC Cash	0.10%
Long-dated bonds	LGIM Pre-Retirement Fund	0.11%
Multi-Asset (Active)	Invesco Global Targeted Returns Fund	0.75%
UK Property	LGIM Managed Property	0.65%
UK Equity (Ethical Investment)	LGIM Ethical UK Equity Index Fund	0.25%
Global Equities (Emerging Markets)	LGIM World Emerging Market Equity Index	0.35%
Global Equities (Sharia)	HSBC Islamic Global Equity Index	0.35%
Global Bonds (Active)	BNY Mellon Global Dynamic Bond	0.45%
Corporate Bonds	BlackRock Aquila Connect Corporate Bond All Stocks	0.11%
UK Gilts	LGIM All Stocks Gilts Fund	0.09%
UK Index-Linked Gilts	LGIM All Stocks Index-Linked Gilts Fund	0.09%

## BDO Pension Scheme – DC Section

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The funds offered include index tracking funds which invest monies on a passive rather than active basis, in such a way that they should aim to return the same performance, before annual management charges (AMCs), as the appropriate index for the asset class. Differences between tracking funds and the indices they track can sometimes be apparent and are known as tracking errors.

A passive approach should result in a broadly average performance when compared to other investors in the same type of assets (before AMCs). The investment AMCs for index tracking funds are generally much lower than actively managed fund charges.

Included within the actively managed fund choices are the Invesco Global Targeted Returns Fund, the LGIM Managed Property Fund, the LGIM Multi-Asset Fund and the BNY Mellon Global Dynamic Bond Fund.

The Trustee strongly recommends Members to take advice from an Independent Financial Advisor when selecting their funds.

### Best interests of members

The Trustee considers the approach to be suitable for a Keep Your Options Open strategy allowing for the various ways that members may ultimately decide to take their pension, ranging from cash, annuity, drawdown, delayed retirement, or combinations of these.

At the same time the Trustee monitors and reviews the levels of fees paid by members of the funds offered to ensure these remain competitive. The Investment Managers are paid a management fee on the basis of assets under management. The Platform Provider is paid a fee on the basis of assets held on platform.

The appropriateness of the Investment Managers' remuneration will be assessed relative to market costs for similar strategies, the skill and resources required to manage the strategy, and the success or otherwise a manager has had in meeting its objectives both financial and non-financial.

### Realisation of assets

The assets are held in a combination of pooled funds and are fully and readily realisable. Investments are to be realised as and when required in accordance with a member's request.

### 5. Investment Manager Structure

#### Platform provider

The Trustee has appointed Mobius Life Limited (“the Platform Provider”) to provide an investment platform for the Scheme’s assets. The Platform Provider is regulated under the Financial Conduct Authority and the Prudential Regulation Authority, and has been selected in order to effect cost and operational efficiencies in the management of the assets. The Trustee utilises Mobius Life to access the fund investments in BNY Mellon, BlackRock Investment Management, HSBC Global Asset Management, Invesco Asset Management and Legal & General Investment Management (‘LGIM’).

The Trustee entered into a contract with Mobius in July 2017.

#### Investment Managers

The Trustee utilises a number of Investment Managers (access is acquired through the platform provider above) to manage the assets of the Scheme. The Investment Managers are regulated under the Financial Conduct Authority.

The Trustee has decided to invest in pooled funds, other collective investment vehicles, and cash. The Scheme does not invest directly in stocks, shares, bonds, derivatives etc.

The Trustee has decided to invest in pooled funds because:

- the Scheme is not large enough to justify direct investment in equities or bonds on a cost-effective basis;
- pooled funds allow the Scheme to invest in a wider range of assets which serves to reduce risk; and
- pooled funds provide a more liquid form of investment than certain types of direct investment.

The Investment Managers appoint individual custodians to hold the securities owned by the Scheme.

The Investment Managers will supply the Investment Consultant with sufficient information when requested in order to enable them to monitor financial and non-financial performance.

### 6. Risks

The Trustee recognises that a number of risks are involved in the investment of the assets of the Scheme with regards to the core set of fund choices members have available to them. It has identified the following risks which have the potential to reduce the return achieved on the assets below their benchmarks. These are as follows:

- **Manager Risk:** The failure by the Investment Managers to achieve the rates of investment return required.
- **Custodian Risk:** The risk of a failed or inadequate performance by the custodian.
- **Political Risk:** The financial risk that a country's government will suddenly change its policies.
- **Counterparty risk:** The risk that other parties in any trade or position will default, i.e. will renege on their contractual obligations, resulting in a financial loss to the Scheme.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review.

The policy of the Trustee is to monitor, where possible, these risks on a regular basis. The Trustee therefore considers:

- Investment Manager performance against their respective benchmarks and targets
- Level of total charges for the selected funds
- The range and number of funds available to the Members
- Any significant issues with the Investment Managers that may impact their ability to achieve returns at the same level as their respective benchmarks

## BDO Pension Scheme – DC Section

### 7. Environmental, Social and Governance (ESG)

The Trustee believes that the consideration of financially material Environmental (including climate change), Social and Governance (ESG) factors in investment decision making can lead to better risk adjusted investment returns. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to take financially material ESG factors into account. On an ongoing basis the Trustee (delegating to the Investment Consultant where appropriate) assesses the ESG integration capability of its Investment Managers.

Where ESG factors are non-financial (i.e. they do not pose a risk to the prospect of the financial success of the investment) the Trustee believes these should not drive investment decisions. The Trustee expects its Investment Managers, when exercising discretion in investment decision making, to consider non-financial factors only when all other financial factors have been considered and in such a circumstance the consideration of non-financial factors should not lead to a material reduction in the efficiency of the investment. Members' views are not sought on non-financial matters (including ESG, quality of life considerations and ethical views) in relation to the selection, retention and realisation of investments.

The Trustee believes that in order to protect and enhance the value of the investments, during the period over which the benefits are paid, it must act as a responsible asset owner. The Trustee cannot exercise its responsibilities directly as it does not hold investments in its name. The Trustee expects its Investment Managers to exercise ownership rights attached to investments as well as voting and engagement rights at annual and extraordinary general meetings of companies. The Trustee has seen the voting and engagement policies of each of the Investment Managers and believes that they are compatible with its own policy. The Trustee expects the Investment Manager to report to it on the implementation of, and any changes to, their policies on voting and engagement.

On an ongoing basis the Trustee will assess the stewardship and engagement activity of its Investment Managers (delegating to the Investment Consultant where appropriate). This will be done by reviewing the Investment Managers' voting and engagement policies, summary reports detailing the engagement and voting activity undertaken by the Investment Managers, and asking questions directly to the Investment Managers.

The Trustee has also made available to members in the DC Section a self-select option, where members can choose to invest in a fund with an ethical focus. The Trustee has selected to use the LGIM Ethical UK Equity Index fund for this purpose.

Responsibility for monitoring the make-up and development of the capital structure of investee companies is delegated to the Investment Managers. The Trustees expect the extent to which the Investment Managers monitor capital structure to be appropriate to the nature of the mandate.



## 8. Conflicts of Interest

The Trustee maintains a separate conflicts of interest policy and register.

Subject to reasonable levels of materiality, these documents record any actual or potential conflicts of interest in relation to investee companies or the Investment Managers, while also setting out a process for their management.

## 9. Incentivisation of Investment Managers

The Investment Managers are primarily remunerated based on an agreed fixed annual percentage of the asset value for each underlying fund.

The Trustee does not directly incentivise the Investment Managers to align the approach they adopt for a particular fund with the Trustee's policies and objectives.

Neither does the Trustee directly incentivise the Investment Managers to make decisions about the medium to long-term performance of an issuer of debt or equity, or to engage with those issues to improve their performance. The Trustee expects such assessment of performance and engagement to be undertaken as appropriate and necessary to meet the investment objectives of the funds used by the Scheme.

## 10. Portfolio Turnover Costs

The Trustee expects the Investment Managers to change underlying holdings only to an extent required to meet their investment objectives. The reasonableness of such turnover will vary by fund and change according to market conditions.

The Trustee therefore does not set a specific portfolio turnover target for their strategy or the underlying funds.

The Investment Managers when requested by the Investment Consultant shall provide information on portfolio turnover and associated costs so that this can be monitored, as appropriate.

BDO Pension Scheme – DC Section

Richard Faulkner

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For and on behalf of BDO Pension Trustees No2 Limited

28 July 2020

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Date

Stuart Collins

\_\_\_\_\_  
For and on behalf of the Employer

21 July 2020

\_\_\_\_\_  
Date

## Appendix B – Net Returns

The returns for the self-select funds within the current arrangements for periods to 30 June 2023 are outlined below:

Fund	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)
<b>Current Funds</b>			
BNYM Real Return Fund	-4.9	0.8	2.1
BlackRock DC Corporate Bond All Stocks Index Fund	-6.9	-6.2	-1.4
BlackRock DC Cash Fund	3.1	1.1	0.9
LGIM Managed Property Fund	-17.5	2.7	1.6
LGIM Pre-Retirement Fund	-14.3	-12.3	-4.2
LGIM Ethical UK Equity Index Fund	8.9	10.0	3.4
LGIM World (ex UK) Equity Index Fund	13.3	11.1	10.2
LGIM UK Equity Index Fund	7.9	10.0	3.1
LGIM Multi Asset (formerly Consensus) Fund	2.3	2.1	3.1

The returns for the de facto default option (the BNY Mellon Real Return Fund) for periods to 30 June 2023 are outlined below:

Mobius Platform Investments (Net Returns)	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)
Current Default (BNY Mellon Real Return Fund) – Retirement over all years	-4.9	0.8	2.1

**Appendix C - Illustration of Annual Management Charges and Fund Values**

The following illustration projects the value of a £10,000 accumulated pension fund to provide estimated values in 10 years time, 20 years time and in 30 years time.

The projections assume that no other contributions are paid into the fund over the projection periods.

The illustration allows for Annual Management Charges (AMCs) to be paid out to the investment fund manager for services involved with the management of the fund and the costs associated with running the fund. The level of these charges affects the final fund value.

Three different annual management charges have been used to provide a broad spectrum of projections demonstrating how a higher annual management charge may result in a lower final fund value at the end of the period.

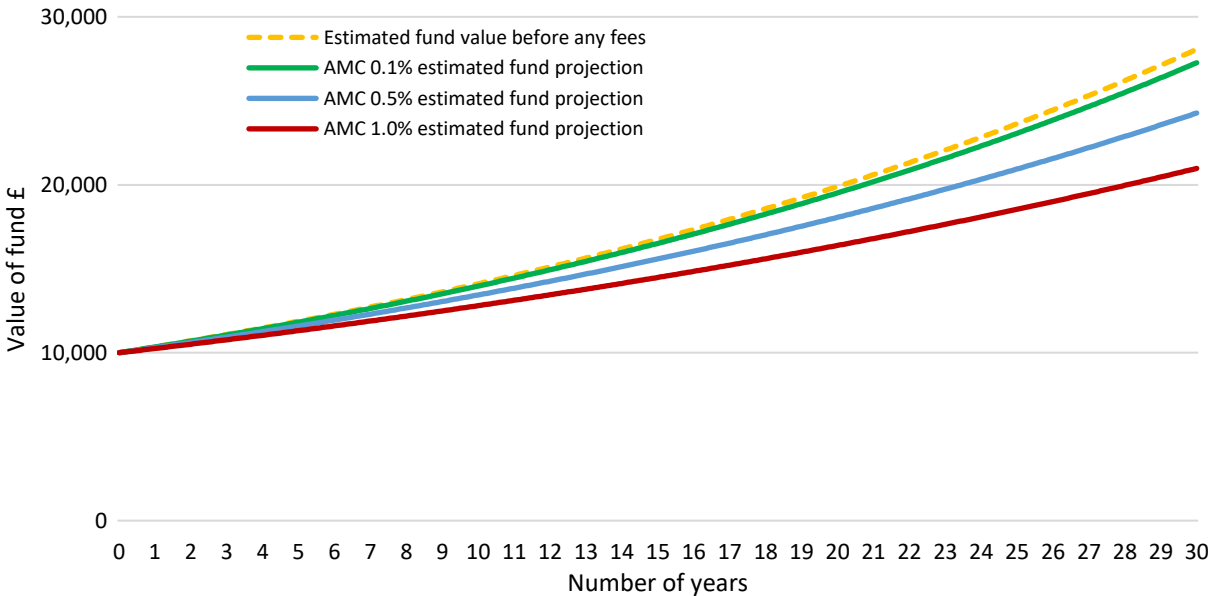
A gross investment return of 6% per annum has been assumed over all illustration periods and the annual management charges applicable for each example are deducted from this.

The illustrations have also been reduced to reflect the effects of anticipated inflation over the period of projection, assumed to be 2.5% per annum. This means that the resulting projections can be considered as the value of money in today's terms.

The value of the fund based on each different Annual Management Charge is shown at three separate periods 10 years, 20 years and 30 years.

It should be noted that these are only illustrations and actual fund values will depend on actual investment returns achieved on investments, the time under investment and the amount invested.

**Illustration of the effect of Annual Management Charges (AMC) on projected fund values**



	No Charges	0.1% Charge per annum	0.5% Charge per annum	1.0% Charge per annum
Value at 10 years	£14,106	£13,970	£13,439	£12,801
Value at 20 years	£19,898	£19,517	£18,061	£16,386
Value at 30 years	£28,068	£27,266	£24,273	£20,976