

# The Crown Estate Pension Scheme Chair's Annual Statement for the year 1 April 2020 to 31 March 2021

## Introduction

Governance requirements apply to defined contribution (“DC”) pension arrangements such as the Quartz Top-Up and Topaz sections of The Crown Estate Pension Scheme (the Scheme), to help members achieve a good outcome from their pension savings. The Trustees of the Scheme are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members’ funds are invested (this means the default arrangement and other funds members can select or have assets in, such as self-select or legacy funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a ‘value for members’ assessment; and
- trustee knowledge and understanding.

This statement covers the period from 1 April 2020 to 31 March 2021. The Trustees continue to be committed to high governance standards and we have regular meetings throughout the Scheme year at which we monitor the controls and processes in place in connection with the Scheme’s investments and administration. This has continued despite difficulties created by the COVID-19 pandemic.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact Phil Farrell, Secretary to the Trustees, using the following contact details:

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## 1. Default investment arrangement

The Scheme is used as a Qualifying Scheme for auto-enrolment. Members who join the Scheme and who do not choose an investment option are placed into the Balanced Drawdown Lifestyle Profile, (the “default arrangement”). During the Scheme year, approximately 71% of Quartz Top-Up and Topaz section members had their contributions invested in the default arrangement.

### Setting an appropriate investment arrangement

The Trustees are responsible for the Scheme’s investment governance, which includes setting and monitoring the investment strategy for the Scheme’s default arrangement.

In June 2019, a new default arrangement called the Balanced Drawdown Lifestyle Profile was introduced which replaced the Cautious Lifestyle Profile. The Balanced Drawdown Lifestyle Profile consists of the following funds:

- BlackRock DC Aquila Connect Balanced Fund
- Schroders Dynamic Multi-Asset Fund
- LGIM Retirement Income Multi-Asset Fund

Details of the investment strategy and investment objectives of the Scheme’s default arrangement are recorded in a document called the Statement of Investment Principles (SIP). A copy of this document can be found on pages xx to xx.

The primary objective of the Scheme’s DC Section is to provide a pot of money created by the invested value of the contributions paid. The money is for members to use on their retirement or to provide benefits for their dependants on death before retirement. The Trustees look to achieve this by providing members with investment choices that reflect their:

- Attitude to investment risk;
- Level of dependency on the benefits to be drawn;
- Understanding of investment matters; and
- Range of ages, cognisant that:
  - members closer to retirement have less scope to absorb risk and protect against short term fluctuation in asset values; and
  - members further from retirement have greater scope to absorb risk and short-term volatility in asset values, but also have to seek to protect against the erosion of the capital value of their assets by inflation.

### Reviewing the default investment arrangement

During the period covered by this statement, the Trustees reviewed the objectives and investment performance of the underlying funds of the default arrangement on a quarterly basis and took advice from Quantum Advisory, the Scheme’s investment advisers as appropriate.

In addition to the quarterly reviews of the default arrangement and its component funds, the Trustees also undertake a comprehensive review at least every three years, or sooner if there is a significant change in investment policy or the Scheme’s membership profile. The next comprehensive review of the Scheme’s default arrangement is scheduled for June 2022.

The Trustees are currently reviewing the Scheme’s DC investment options, including the default arrangement, to understand to what degree, if any, the funds available to members take into account

Environmental, Social and Governance issues. This assessment should be completed by the end of 2021.

### Property Fund

During the COVID-19 pandemic, LGIM, the managers of the self-select Managed Property Fund, closed this fund to new contributions. All affected members were informed of this, and their contributions were diverted (unless the member specified otherwise) to the LGIM Cash Fund.

The temporary suspension of trading on the LGIM Managed Property Fund was lifted in October 2020 and all affected members were informed that future contributions would be invested in this Fund, in line with their specified investment choices. All contributions which were temporarily invested in the LGIM Cash Fund were transferred to the LGIM Managed Property Fund in October 2020.

## 2. Charges and transaction costs paid by members

The Trustees are required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (“TER”). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs as they are paid by the Employer.

The charges and transaction costs related to investments have a direct impact on investment performance and are, therefore, something in which members should be very interested. The charges and transaction costs have been supplied by Mobius Life who are the Scheme’s investment platform providers.

The Balanced Drawdown Lifestyle Profile automatically moves members’ investments between different funds as they approach their target retirement date. Consequently, the level of charges and transaction costs payable will vary depending on how close members are to their target retirement date and the fund(s) in which they are invested.

For the period covered by this statement, annualised charges and transaction costs are set out in the table below. The member borne charges for the Scheme’s default arrangement complied with the charge cap of 0.75% pa. The level of charges applicable to the funds that make up the Scheme’s default investment arrangement during the last Scheme year were:

### Balanced Drawdown Lifestyle Profile

Fund	Annual Management Charge (1)	Additional Expenses (2)	Total Charge (3)
BlackRock DC Aquila Connect Balanced Fund	0.210%	0.004%	0.214%
Schroders Dynamic Multi-Asset Fund	0.290%	0.050%	0.340%
LGIM Retirement Income Multi-Asset Fund	0.340%	0.010%	0.350%

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this statement are set out in the table below. The funds used within the current default arrangement are shown in **bold**.

<b>Fund</b>	<b>Annual Management Charge (1)</b>	<b>Additional Expenses (2)</b>	<b>Total Charge (3)</b>
LGIM Global Equity Fixed Weights (50:50) Index	0.140%	0.000%	0.140%
LGIM World (ex UK) Equity Index	0.175%	0.000%	0.175%
LGIM UK Equity Index	0.090%	0.000%	0.090%
LGIM Ethical UK Equity Index	0.250%	0.000%	0.250%
LGIM Managed Property	0.640%	0.020%	0.660%
LGIM All Stocks Gilts Index	0.080%	0.000%	0.080%
LGIM Future World Fund	0.240%	0.000%	0.240%
LGIM AAA-AA-A Corp Bond All Stocks Index	0.125%	0.000%	0.125%
LGIM Cash Fund	0.100%	0.000%	0.100%
<b>LGIM Retirement Income Multi Asset Fund</b>	<b>0.340%</b>	<b>0.010%</b>	<b>0.350%</b>
LGIM Pre-Retirement Fund	0.125%	0.000%	0.125%
<b>BlackRock DC Aquila Connect Balanced Fund</b>	<b>0.210%</b>	<b>0.004%</b>	<b>0.214%</b>
<b>Schroders Dynamic Multi-Asset Fund</b>	<b>0.290%</b>	<b>0.050%</b>	<b>0.340%</b>

Notes:

(1) This element of the total charge payable by members covers the investment manager's fees for investing the money and managing the investments in the fund including the manager's pay.

(2) This cost relates to the fund's operational expenses such as trading fees, legal fees, auditor fees, administration services, accounting fees, custodian and settlement charges for the investments the fund holds.

(3) This is the total charge payable by members ((1)+(2)).

In addition, the Trustees are required by law to disclose information relating to transaction costs in respect of any investment vehicle available to Scheme members.

The transaction costs for the one-year period to 31 March 2021 are shown below:

Fund	Total Transaction Costs
LGIM Global Equity Fixed Weights (50:50) Index	0.012%
LGIM World (ex UK) Equity Index	-0.020%
LGIM UK Equity Index	-0.011%
LGIM Ethical UK Equity Index	0.017%
LGIM Managed Property	0.470%
LGIM All Stocks Gilts Index	-0.033%
LGIM Future World Fund	0.250%
LGIM AAA-AA-A Corp Bond All Stocks Index	0.021%
LGIM Cash Fund	-0.002%
LGIM Retirement Income Multi Asset Fund	0.039%
LGIM Pre-Retirement Fund	0.017%
BlackRock DC Aquila Connect Balanced Fund	-0.056%
Schroders Dynamic Multi-Asset Fund	0.218%

Please note that some transaction costs are negative due to the prescribed method for calculating them. Negative transaction costs are shown where an overall beneficial pricing environment has occurred at the point of trading underlying assets over the period, which has more than offset the costs of the trades.

### Value for members

The Trustees are required by law to assess, on an annual basis, the extent to which member -borne charges and transaction costs represent good value for members. It is difficult to give a precise legal definition of “good value”, but the Trustees consider that it broadly means “that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme 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 last review undertaken by the Trustees was in June 2021, covering the period 1 April 2020 to 31 March 2021.

The Trustees note 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 Trustees’ investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustees’ assessment also included a review of the performance of the funds (after all charges) in the context of their investment objectives. The Trustees are of the opinion that the returns on the funds during the period covered by this statement have generally been consistent with their stated investment objectives. The Trustees have placed the LGIM Managed Property Fund and the Schroder Dynamic Multi Asset Fund on a watching brief due to concerns about their performance against their stated benchmarks.

In carrying out this assessment, the Trustees also considered the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustees, including ensuring the Scheme is compliant with relevant legislation, such as the charge cap, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangement and how this reflects the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services, such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

The Trustees are comfortable with the quality and efficiency of the Scheme’s administration processes. In addition, the Trustees believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

## Active member – Illustration of the possible impact of costs

Over time the charges and transaction costs that are taken out of a member’s pension savings can reduce the amount available to the member at retirement. The Trustees have set out below illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP’s statutory guidance on “Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes” on the projection of an example member’s pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have had to make several 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 fees or transaction costs. The “After all charges & costs deducted” figures represent the savings projection using the same assumed investment return but after deducting member-borne fees.
- The illustration is shown for the current default arrangement (the Balanced Drawdown Lifestyle Profile) since this is the arrangement with the most members invested in it, where members are automatically enrolled, as well as a range of funds from the Scheme’s self-select fund range. The self-select funds shown in the illustration are:
  - the fund that has attracted the greatest volume of contributions during the Scheme Year – this is the BlackRock DC Aquila Connect Balanced Fund
  - a fund with the highest before costs expected return – this is the LGIM Global Equity Fixed Weights (50:50) Index Fund
  - the fund with the lowest before costs expected return – this is the LGIM Cash Fund

## Active member illustration

Projected Pension Account in today's money: -

Projected Pension Account in today's money								
	Fund choice							
	Default investment strategy		BlackRock DC Aquila Connect Balanced Fund		LGIM Global Equity Fixed Weights (50:50) Index Fund		LGIM Cash Fund	
Years to retirement	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
1	£18,000	£18,000	£18,000	£18,000	£18,200	£18,200	£17,300	£17,300
3	£30,500	£30,300	£30,500	£30,300	£31,400	£31,300	£27,700	£27,700
5	£43,600	£43,100	£43,600	£43,300	£45,700	£45,500	£37,700	£37,600
10	£79,100	£77,900	£79,100	£78,200	£86,500	£85,700	£61,000	£60,700
15	£119,000	£117,000	£119,000	£117,000	£136,000	£134,000	£82,200	£81,500
20	£165,000	£160,000	£165,000	£161,000	£196,000	£192,000	£101,000	£100,000
25	£216,000	£208,000	£216,000	£209,000	£268,000	£263,000	£119,000	£117,000
30	£273,000	£263,000	£273,000	£263,000	£356,000	£347,000	£134,000	£132,000
35	£338,000	£323,000	£338,000	£324,000	£462,000	£448,000	£149,000	£146,000
40	£412,000	£390,000	£412,000	£392,000	£591,000	£570,000	£161,000	£159,000

### Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £12,000.
3. Inflation is assumed to be 2.50% each year.
4. Contributions at the rate of 9.00% are assumed to continue to retirement age and increase in line with assumed earnings inflation of 2.50% each year. Contributions are based on a current salary of £62,700 pa.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
  - a. Default strategy: from 5.00% pa (depends on how close you are to retirement).
  - b. BlackRock DC Aquila Connect Balanced Fund : 5.00% pa.
  - c. LGIM Global Equity Fixed Weights (50:50) Index Fund: 6.50% pa.
  - d. LGIM Cash Fund: 0.50% pa.

## Deferred member – Illustration of possible impact of costs

Projected Pension Account in today's money: -

Projected Pension Account in today's money								
	Fund choice							
	Default investment strategy		BlackRock DC Aquila Connect Balanced Fund		LGIM Global Equity Fixed Weights (50:50) Index Fund		LGIM Cash Fund	
Years to retirement	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
1	£8,200	£8,170	£8,200	£8,180	£8,310	£8,300	£7,840	£7,840
3	£8,600	£8,520	£8,600	£8,550	£8,970	£8,940	£7,540	£7,520
5	£9,020	£8,890	£9,020	£8,930	£9,690	£9,620	£7,250	£7,210
10	£10,200	£9,910	£10,200	£9,970	£11,700	£11,600	£6,570	£6,500
15	£11,500	£11,100	£11,500	£11,100	£14,200	£13,900	£5,950	£5,860
20	£13,000	£12,400	£13,000	£12,400	£17,200	£16,800	£5,390	£5,290
25	£14,600	£13,800	£14,600	£13,900	£20,800	£20,200	£4,890	£4,770
30	£16,500	£15,400	£16,500	£15,500	£25,200	£24,300	£4,430	£4,300
35	£18,600	£17,200	£18,600	£17,300	£30,500	£29,200	£4,010	£3,880
40	£21,000	£19,200	£21,000	£19,300	£37,000	£35,100	£3,640	£3,500

### Notes

- Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
- The starting Pension Account value is assumed to be £8,000.
- Inflation is assumed to be 2.50% each year.
- No further contributions are assumed.
- Values shown are estimates and are not guaranteed.
- The projected growth rates for the fund choices are as follows:
  - Default strategy: 5.00% pa (depends on how close you are to retirement).
  - BlackRock DC Aquila Connect Balanced Fund : 5.00% pa.
  - LGIM Global Equity Fixed Weights (50:50) Index Fund: 6.50% pa.
  - LGIM Cash Fund: 0.50% pa.



### 3. Core financial transactions

The Trustees are required to report to members about the processes and controls in place in relation to the Scheme's "core financial transactions". The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring assets related to members into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

The Trustees have received assurance from the Scheme's administrator, Quantum Advisory, that there were adequate internal controls in place to ensure that core financial transactions relating to the Scheme's Quartz Top-Up and Topaz section were processed promptly and accurately during the Scheme year. This includes the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Scheme has a Service Level Agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core financial transactions.

The Trustees receive quarterly reports about the administrator's performance and compliance with the SLA; using information provided by the administrators, which has been reviewed by the auditors, the Trustees are 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
- core financial transactions have been processed promptly and accurately during the Scheme year.

### 4. Trustee knowledge and understanding

The Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee must:

- Be conversant with the Trust Deed and Rules of the Scheme, the Scheme's Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a Trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below. We take our training and development responsibilities seriously and maintain a Trustee training record. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the board. This allows us to work with our professional advisers to address any areas where our knowledge is less than what the Pensions Regulator would expect.

All the Trustees have either registered for and have completed the Trustee Toolkit made available by the Pensions Regulator or are working to do so. The Pensions Regulator expects the Trustees to complete the Trustee Toolkit and have formal induction training within six months of their appointment.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this statement, the Trustees received group training on the following topics:

- Cyber Security
- Pension Scams
- The Pension Schemes Act 2021
- Requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019

All the Trustees are familiar with and have access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments), the SIP and key policies and procedures. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme and, where relevant, deciding individual member cases, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

Further, the Trustees consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil their duties.

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.