

## Defined Contribution Governance statement for the year ended 31 December 2022

### Introduction

The DC Section of the Church Administrators Pension Fund (the “Fund”) is an occupational pension scheme providing defined contribution (“DC”) benefits (a DC pension scheme is a scheme into which a specified rate of employee and employer contributions are paid, and under which the member chooses their investments and bears the investment risk). Members can also pay Additional Voluntary Contributions (“AVCs”) into the Fund.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. The Church of England Pensions Board as trustee of the CAPF (the “Trustee”) is required to produce a yearly statement (signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (i.e. administration of the Fund, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in, such as “legacy” funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Fund is assessed; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 January 2022 to 31 December 2022 (the “Fund Year”).

### Default arrangements

The Fund is used as a Qualifying Scheme for automatic enrolment purposes.

The Trustee has made available a range of investment options for members. Members who join the Fund and who do not choose an investment option are placed into the Drawdown Journey (the “Default”). The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a Target Date Fund (“TDF”) strategy, which means that members’ assets are switched automatically and gradually to lower risk investments as members approach their target retirement age.

There is also a legacy default strategy (the “Legacy Default”) which is a lifestyle strategy targeting annuity purchase at retirement. This was replaced by the current Default strategy in February 2019. Most members in the Legacy Default were transferred to the current Default strategy at that time. However, members who were less than 5 years to their target retirement date were not moved automatically and so have remained in the Legacy Default.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the Default and Legacy Default.

Details of the objectives and the Trustee’s policies regarding the Default and Legacy Default can be found in a document called the ‘Statement of Investment Principles’ (“SIP”). The Fund’s SIP covering the default arrangement is attached to this document.

The aims and objectives of the Default arrangement, as stated in the SIP, are as follows:

- To generate returns in excess of inflation during the earlier part of the strategy whilst managing downside risk;
- To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement; and
- To provide exposure, at retirement, to assets that are considered suitable for those looking to enter into an income drawdown arrangement at retirement.

The Legacy Default was last reviewed on 16 July 2020. The Default was reviewed during the Fund Year on 30 March 2022. The Trustee formally reviews the default arrangements at least every three years or immediately following any significant change in investment policy or the Fund’s member profile.

The performance and strategy of the Default and Legacy Default are reviewed to ensure that investment returns (after deduction of any charges) have been consistent with the Trustee’s aims and objectives for those arrangements, as stated in the SIP, and to check that it continues to be suitable and appropriate given the Fund’s membership profile. This includes an analysis of member demographics and takes into account expectations of how the members in the relevant default arrangement will take their pension at retirement.

Following the review of the Default in March 2022, the Trustee concluded that it remained appropriate for the Default to target income drawdown at retirement. In addition, as part of the review the Trustee agreed to proposed changes being made to the Default by L&G, as investment manager for the Fund, which involved a greater level of explicit Environmental, Social and Governance (“ESG”) integration and lower fees for Fund members. The changes were implemented in June 2022.

The Trustee also offered a third TDF strategy, the ‘Stay Invested Journey’, for part of the Fund Year. However, L&G, as the investment manager for the Fund, discontinued the ‘Stay Invested Journey’ TDF range with effect from 10 June 2022. Members of the Fund who were invested in this TDF were moved into the Default TDF and given the option to “opt-out” and select an alternative arrangement prior to being moved.

## Defined Contribution Governance statement (continued)

Regarding the Legacy Default strategy, the Trustee remains satisfied that it is appropriate for CAPF members who were within 5 years of their target retirement date at the point the new default was introduced in February 2019. By February 2024 all such members should have retired, or switched to a different strategy, and therefore no further review of the Legacy Default strategy is planned.

The Trustee also monitors the performance of the Fund's default arrangements against its objectives for those arrangements, on a quarterly basis. The reviews include analysis of performance to check that the risk and return levels meet expectations. Following each of its reviews during the Fund Year, the Trustee concluded that the Fund's default arrangements were performing broadly as expected given market conditions over the periods assessed.

### Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Fund, the administration team of the Church of England Pension Board. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Fund, transfers of assets between different investments within the Fund, and payments to members/beneficiaries.

The Trustee recognises that delay and error can cause significant issues for members. They can also cause members to lose faith in the Fund, which may in turn reduce their propensity to save and impair future retirement outcomes. The Trustee has received assurance from the Fund's administrator that there are adequate internal controls to support prompt and accurate processing of core financial transactions.

The Trustee has a Service Level Agreement ("SLA") in place with the Fund's administrator which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

- process management within the administration system detailing time outstanding to complete tasks within their assigned SLA;
- weekly reporting to senior managers detailing any SLA failures and reason for failure;
- daily monitoring of emails by an assigned member of staff;
- daily monitoring of bank accounts; and
- checking by two people of investment and banking transactions.

To help the Trustee monitor whether service levels are being met, the Trustee receives quarterly reports about the Fund administrator's performance and compliance with the SLA. Any issues identified by the Trustee as part of its review processes would be raised with the Fund's administrator immediately and steps would be taken to resolve the issues.

Based on its review processes, the Trustee is satisfied that over the period covered by this Statement and in respect of the Fund:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions;
- core financial transactions have been processed promptly and accurately to an acceptable level during the Fund Year.

### Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the Fund Year, which are annual fund management charges plus 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 are shown as a per annum ("pa") figure and exclude administration charges, since these are not met by members.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Fund's fund managers buy and sell assets within investment funds, but are exclusive of any costs incurred when members invest in and switch between funds. Transaction costs are borne by members.

The charges and transaction costs have been supplied by Legal and General ("L&G") who is the investment manager for the Fund. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Under the prescribed way in which transaction costs have been calculated it is possible for figures to be negative, where market movements are favourable between the time a trade is placed and it is executed. The Trustee has shown any negative figures in the tables for the year as provided, but for the costs and charges illustrations the Trustee has used zero where a transaction cost is negative to give a more realistic projection (ie the Trustee would not expect transaction costs to be negative over the long term).

### Default arrangement

The Default arrangement is a Target Date Fund ("TDF"), the Drawdown Journey, which is for members looking to target income drawdown at retirement at a particular age. The TDF's asset allocation changes over time, similar to a lifestyle arrangement, with members' assets automatically moving between different asset classes as they approach their target retirement age. Whilst the annual management charge component of the fee charged to members for investing in this strategy remains the same regardless of how far members are from their target retirement age, the level of additional expenses (and hence the overall fees) and transaction costs can sometimes vary, depending on how close members are to their target retirement age and what assets they are invested in.

## Defined Contribution Governance statement (continued)

For the period covered by this Statement, annualised charges and transaction costs for all the vintages of the Default TDF with members invested are set out in the following table.

### Default charges and transaction costs

Vintage	TER <sup>1</sup>	Transaction costs
2015-2020	0.25	0.14
2020-2025	0.25	0.10
2025-2030	0.25	0.13
2030-2035	0.25	0.15
2035-2040	0.25	0.16
2040-2045	0.25	0.16
2045-2050	0.25	0.17
2050-2055	0.25	0.18
2055-2060	0.25	0.18
2060-2065	0.25	0.19

<sup>1</sup>Prior to the changes made to the Default TDF range on 10 June 2022, the TER for all vintages was 0.30% per annum.

### Legacy Default arrangement

The Legacy Default is a lifestyle strategy, targeting annuity purchase at retirement. The Legacy Default's allocation similarly changes over time, with members' assets automatically moving between different asset classes as they approach their target retirement date. Therefore, fees charged to members for investing in this strategy vary as they move closer to retirement. The level of transaction costs incurred by members in the Legacy Default also varies as members move closer to retirement.

For the period covered by this Statement, annualised charges and transaction costs for the Legacy Default are set out in following table.

### Legacy default arrangement charges and transaction costs

Years to target retirement age	TER	Transaction costs
5 or more years to retirement	0.19	0.12
4 years to retirement	0.17	0.13
3 years to retirement	0.16	0.14
2 years to retirement	0.14	0.15
1 year to retirement	0.12	0.16
At retirement	0.11	0.17

### Self-select options

In addition to the Default, members also have the option to invest in one other TDF strategy, the 'Annuity Journey'. There is also an ethical lifestyle option and several other self-select funds.

As noted in section 2 of the Statement, the Trustee offered a third TDF strategy, the Stay Invested Journey, until it was discontinued by L&G, as the investment manager for the Fund, with effect from 10 June 2022. As such, for the purposes of this Statement, the Trustee has not included the 'Stay Invested Journey' TDF.

For the period covered by this Statement, annualised charges and transaction costs throughout the vintages of the Annuity Journey with members invested are set out in the following table.

### Annuity Journey charges and transaction costs

Vintage	TER <sup>1</sup>	Transaction costs
2025 – 2030	0.25	0.07
2030 – 2035	0.25	0.03
2035 – 2040	0.25	0.03
2040 – 2045	0.25	0.03
2045 – 2050	0.25	0.17

<sup>1</sup>Prior to the changes made to the Annuity Journey TDF range on 10 June 2022, the TER for all vintages was 0.30% per annum.

## Defined Contribution Governance statement (continued)

For the Fund Year, annualised charges and transaction costs for the Ethical lifestyle option are set out in the table below:

### Ethical Lifestyle option charges and transaction costs

Years to target retirement age	TER	Transaction costs
5 or more years to retirement	0.25	0.02
4 years to retirement	0.22	0.05
3 years to retirement	0.19	0.08
2 years to retirement	0.16	0.11
1 year to retirement	0.14	0.14
At retirement	0.11	0.17

The level of charges for each self-select fund and the transaction costs over the period covered by this Statement are set out in the following table.

### Self-select fund charges and transaction costs

Fund name	TER	Transaction costs
L&G Ethical UK Equity Index Fund	0.20	0.04
L&G Ethical Global Equity Index Fund	0.30	0.00
L&G UK Equity Index Fund	0.10	0.04
L&G Global Equity Market Weights (30:70) Index Fund	0.19	0.12
L&G Overseas Equity Consensus Index Fund	0.20	0.07
L&G Over 5 years UK Index-Linked Gilts Fund	0.10	0.21
L&G Over 15 Year Gilts Index Fund	0.10	0.19
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	0.15	-0.02
L&G Managed Property Fund	0.70	-0.07
L&G Cash Fund	0.13	0.03

### Additional Voluntary Contributions (AVCs)

Members paying AVCs have exactly the same choice of investments for their AVCs as they do for regular contributions. Annualised charges and transaction costs in respect of AVCs are the same as those set out in the tables above.

### Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings (including AVCs). In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past four years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). The Trustee has used the average annualised transaction costs over the past four years as this is the longest period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Fund Year.
- The illustration is shown for the Default (the Drawdown Journey), since this is the arrangement with the most members invested in it, as well the legacy default arrangement and two funds from the Fund's self-select fund range. The two self-select funds shown in the illustration are:
  - the fund with highest annual member borne costs (TER plus Fund Year transaction costs) – this is the L&G Managed Property Fund
  - the fund with lowest annual member borne costs – this is the L&G UK Equity Index Fund

## Defined Contribution Governance statement (continued)

### Projected pension pot in today's money

Years invested	Default option		Legacy Default option		L&G Managed Property Fund		L&G UK Equity Index Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£7,400	£7,300	£7,400	£7,400	£7,300	£7,300	£7,400	£7,400
3	£13,600	£13,600	£13,900	£13,800	£13,600	£13,400	£13,900	£13,900
5	£20,100	£19,900	£20,800	£20,600	£20,000	£19,600	£20,800	£20,700
10	£36,800	£36,100	£39,600	£39,100	£36,900	£35,500	£39,600	£39,400
15	£54,400	£53,000	£61,300	£60,000	£55,100	£52,000	£61,300	£60,700
20	£73,200	£70,800	£86,000	£83,600	£74,700	£69,200	£86,000	£85,000
25	£93,300	£89,400	£114,300	£110,300	£95,900	£87,100	£114,300	£112,700
30	£114,600	£108,900	£146,800	£140,600	£118,700	£105,800	£146,800	£144,300
35	£134,000	£126,200	£184,000	£174,800	£143,200	£125,200	£184,000	£180,200
40	£148,400	£138,600	£197,500	£186,400	£169,600	£145,400	£226,600	£221,200

### Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. The long term annual inflation assumption used is 2.5%, as prescribed by the Financial Reporting Council (FRC) in its Actuarial Standard Technical Memorandum 1 ("TM1").
- Annual salary growth is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with the prescribed inflation assumption to allow for prudence in the projected values.
- The starting pot size used is £4,300. This is the approximate average (median) pot size for active members aged 30 years and younger (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £37,000. This is the approximate median salary for active members aged 30 or younger.
- Total contributions (employee plus employer) are assumed to be 8.0% of salary per year. The employer contribution for members under the age of 30 is 8.0% per year, whilst the average member for this age cohort does not contribute.
- The projected annual returns used are as follows:
- Default option: 1.9% above inflation for the initial years, gradually reducing to a return of 0.3% below inflation at the at-retirement allocation of the Target Date Fund.
- Legacy Default option 2.8% above inflation for the initial years, gradually reducing to a return of 2.0% below inflation at the at retirement allocation of the lifestyle.
  - L&G Managed Property Fund: 1.5% above inflation
  - L&G UK Equity Index Fund: 2.8% above inflation
- No allowance for active management outperformance has been made.

### Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Fund Year. Returns for the TDFs, lifestyle arrangements and the self-select range are shown over various periods.

As noted in Section 2 of this Statement, members who were invested in the 'Stay Invested Journey' TDF strategy prior to it being discontinued by L&G in June 2022 were moved into the Default TDF and given the option to "opt-out" and select an alternative arrangement prior to being moved. As such, the Trustee requested chain-linked performance from L&G to capture this change but this has not been provided as at the time of writing.

For the TDF arrangements (Default and Annuity Journey), where returns vary with age, returns are shown for members invested in different vintages (determined by their selected retirement age) over the periods shown.

For the lifestyle arrangements (Legacy Default and Ethical Lifestyle), where returns vary with age, the Department of Work and Pensions guidance states that the Trustee should show returns over various periods, for a member aged 25, 45 and 55 at the start of the period that the returns are shown over. This has been shown in the tables below. The Trustee has also included returns for members aged 60 as the allocation to the underlying funds within the two lifestyle arrangements remains static until the last 5 years leading up to retirement. A target retirement age of 65 has been assumed for each of these tables.

## Defined Contribution Governance statement (continued)

### The Drawdown Journey net returns over periods to Scheme Year end

Vintage	1 year (%)	Since inception	(% pa) <sup>1</sup>
2060-2065	-8.0	5.6	
2040-2045	-8.0	4.1	
2030-2035	-8.2	4.1	

<sup>1</sup> The inception date of the L&G Target Date Funds for CAPF is January 2019.

### Legacy Default net returns over periods to Scheme Year end

Age of the member at the start of the period that the returns are shown over	1 year (%)	5 year	(% pa)
25	-10.1	5.3	
45	-10.1	5.3	
55	-10.1	5.3	
60	-13.8	-2.4	

### Ethical Lifestyle net returns over periods to Scheme Year end

Age of the member at the start of the period that the returns are shown over	1 year (%)	5 year	(% pa)
25	-2.7	6.4	
45	-2.7	6.4	
55	-2.7	6.4	
60	-7.9	-2.4	

### The Annuity Journey net returns over periods to Scheme Year end

Vintage	1 year (%)	Since inception (% pa)
2045-2050	-7.6	4.5 <sup>1</sup>
2040-2045	-8.2	1.8 <sup>2</sup>
2035-2040	-8.2	4.3 <sup>1</sup>

<sup>1</sup> The inception date of the L&G Target Date Fund for CAPF is January 2019.

<sup>2</sup> The inception date of the L&G Target Date Fund for CAPF is September 2019.

### Self-select fund net returns over periods to Scheme Year end

Fund name	1 year (%)	5 year (% pa)
L&G Ethical UK Equity Index Fund	1.3	3.1
L&G Ethical Global Equity Index Fund	-6.6	9.4
L&G UK Equity Index Fund	0.8	3.1
L&G Global Equity Market Weights (30:70) Index Fund	-10.1	5.3
L&G Overseas Equity Consensus Index Fund	-8.4	8.2
L&G Over 5 years UK Index-Linked Gilts Fund	-38.8	-5.4
L&G Over 15 Year Gilts Index Fund	-40.6	-6.9
L&G AAA-AA-A Corporate Bond All Stocks Index Fund	-17.3	-1.9
L&G Managed Property Fund	-8.6	2.5
L&G Cash Fund	1.2	0.5

### Value for members assessment

The Trustee is required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Fund. The date of the last review, which covered the Fund Year, was 28 March 2023. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of funds available to members.

## Defined Contribution Governance statement (continued)

The Trustee's assessment included a review of the performance of the Fund's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives given the market conditions over the period.

In carrying out its assessment, the Trustee also considered the other benefits members receive from the Fund, which include:

- the oversight and governance of the Trustee, including ensuring the Fund is compliant with relevant legislation, and holding regular meetings to monitor the Fund and address any material issues that may impact members;
- the design of the Default arrangement and how this reflects the interests of 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 Fund website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded service level agreements.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and expects this to lead to greater investment returns net of costs over time.

During the Fund Year the Trustee agreed to changes being made by L&G, as the investment manager for the Fund, to the Default arrangement that involved a greater level of explicit ESG integration and resulted in lower fees for members. The same changes were also made with respect of the Annuity Journey TDF and were implemented in June 2022. In addition, at the request of the Trustee, an externally facilitated assessment of the Board's effectiveness was undertaken during the Fund Year to aid the Trustee in exercising its responsibilities effectively.

Overall, the Trustee believes that the Fund offers sufficient quality of service to members, at reasonable value for money. The assessment contains both areas of strength and areas for improvement. Recognising that maintaining good value is an ongoing process, the Trustee aims to further improve value for members in the future through taking the following actions:

- Improving the at-retirement support for members including investigating the possibility and practicality of providing a post-retirement solution for members;
- Investigating the possibility of providing an online member portal so members can monitor the value of their pension pots and instigate investment switches online; and
- Looking to improve the self-select fund range by adding additional funds, including a multi-asset fund.

### Trustee knowledge and understanding

The Trustee is required to maintain appropriate levels of knowledge and understanding to run the Fund effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including principles relating to the investment of occupational pension scheme assets, and pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers its training requirements to identify any knowledge gaps. It maintains a Trustee training log, in line with best practice, to assist with this assessment. The Trustee also receives quarterly updates on topical pension issues from its DC advisers. During the Fund Year the Trustee received training on a variety of topics, including but not limited to:

- Task Force on Climate Related Financial Disclosures (TCFD);
- Pensions regulation and case law; and
- UK and global economic risks.

In addition, individual Trustee board members regularly attend external conferences and participate in peer review exercises.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law), or an equivalent qualification. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Fund Year.

The Trustees ensure they are familiar with the Fund's Trust Deed and Rules, SIP and all other documents setting out the Trustee's current policies relating to the Fund as appropriate from time to time to ensure it has a good working knowledge of these documents. Further, the Trustee believe that it has 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 its duties as Trustee of the Fund.

Taking into account the knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (eg investment consultants, legal advisers), the Trustee believes that it is well placed to exercise its functions as Trustee of the Fund properly and effectively.



Date: 13th July 2023

Signed by the Chair of Trustees of the Church Administrators Pension Fund