

CONTINENTAL TEVES UK EMPLOYEE BENEFITS SCHEME ANNUAL CHAIR'S STATEMENT

FOR THE YEAR END: 1 JANUARY 2023 – 31 DECEMBER 2023

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the Continental Teves UK Employee Benefits Scheme (“the Scheme”) is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (i.e. Defined Contribution (“DC”) schemes).

This statement covers seven key areas:

- The investment strategy and performance relating to the Scheme’s default arrangement;
- Asset allocation and performance based fees disclosures;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme;
- Value for Members assessment;
- Net investment returns; and
- The Trustees’ compliance with the statutory Trustee knowledge and understanding (“TKU”) requirements.

This statement will be published on a publicly available website (<https://www.continentaltevesukltd.co.uk/>) and the information concerning cost disclosures will be signposted in the annual benefit statements.

Investment Arrangements

DC investment options are provided by Legal and General Investment Management Limited (“LGIM”) for members of the DC Section and additional voluntary contribution (“AVC”) benefits in the DB section. Administration services are provided to these members by Mercer (Aptia as at 1 January 2024). Within the DC arrangement, there is a default investment arrangement and 5 self- select options available to members.

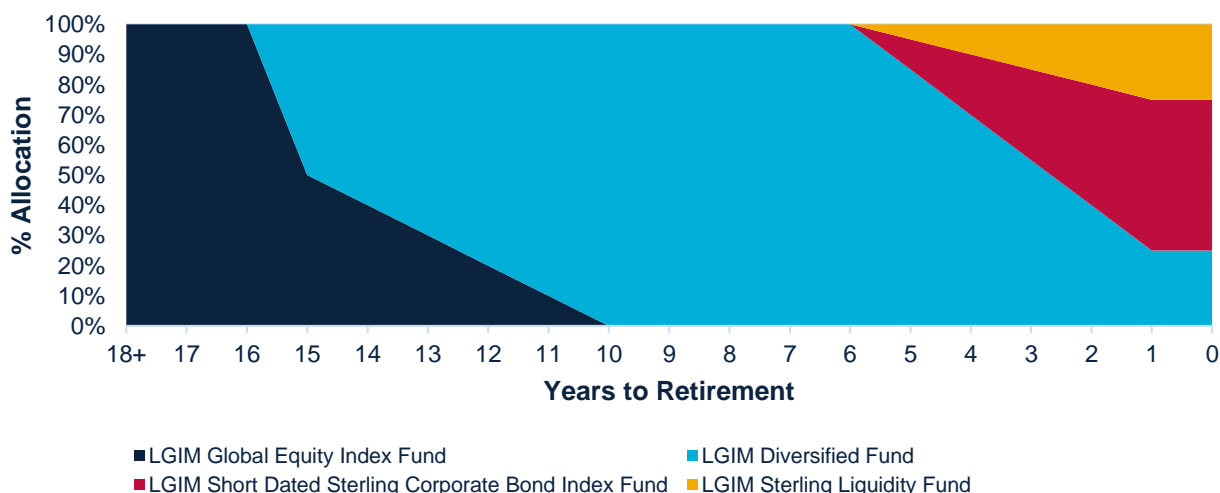
There is also a legacy AVC arrangement invested and administered by Prudential.

Default arrangement

Members of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement.

Under the default lifestyle strategy, members are invested in the LGIM Global Equity Index Fund until they are 16 years from retirement. Assets will then gradually move into the LGIM Diversified Fund so that assets are fully invested in this fund when members are 10 years from retirement. This is a multi-asset fund which invests in a variety of assets including equities, bonds, property and cash holdings. When members reach 6 years from retirement, their savings will gradually move into the LGIM Short Dated Sterling Corporate Bond Index Fund and the LGIM Sterling Liquidity Fund, a cash fund. When a member reaches retirement, their savings will be split between the multi-asset, bond and cash funds at a ratio of 25:50:25, thereby targeting a flexible retirement outcome.

The default lifestyle strategy is illustrated in the following chart:



Asset allocation

A breakdown of the asset allocation of the default arrangement as at 31 December 2023 is also shown below:

	Percentage allocation – average 25 years	Percentage allocation – average 45 years	Percentage allocation – average 55 years	Percentage allocation – 65 years (NRD)
Cash	0.0%	0.0%	2.0%	22.8%
Other Bonds	0.0%	0.0%	16.4%	4.3%
Corporate Bonds	0.0%	0.0%	27.5%	59.2%
Government Bonds	0.0%	0.0%	0.0%	0.0%
Listed Equities	100.0%	100.0%	48.8%	12.2%
Private Equity	0.0%	0.0%	0.8%	0.2%
Infrastructure	0.0%	0.0%	0.0%	0.0%
Property/Real Estate	0.0%	0.0%	4.5%	1.1%
Private Debt/Credit	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%

Source: LGIM, as at 31 December 2023. Figures may not sum due to rounding.

Notes:

Normal Retirement Date (NRD) is assumed to be age 65, prior to 8 years to retirement all members in the default investment solution are invested in the Mercer Growth/Balanced Risk fund.

The following describes the types of investments covered by the above asset classes:

Cash – Cash and assets that behave similarly to cash e.g. treasury bills. It only includes invested cash and not the cash balance held by the Plan.

Bonds – Loans made to the bond issuer, usually a government or a company, to be repaid at a later date.

Listed Equity – Shares in companies that are listed on global stock exchanges. Owning shares makes the Plan a part owner of the company, entitled to a share of the profits (if any) payable as dividends.

Private Equity – Unlisted equities that are not publicly traded on stock exchanges. Encompasses a broad range of investment styles, including:

- Venture Capital – Small, early stage businesses that may have high growth potential, albeit at significant risk.
- Growth Equity – Relatively mature companies that are going through a transformational event with potential for growth.
- Infrastructure – physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons.
- Property – Real estate, potentially including offices, retail buildings which are rented out to businesses.
- Private Debt – Other forms of loan that do not fall within the definition of a 'Bond'.
- Other – Any assets that do not fall within the above categories.

As at 31 December 2023, there were no performance based fees associated with illiquid assets in the default lifestyle strategy.

Further details of the default, including its objectives, are included in the Scheme's Statement of Investment Principles (SIP) which was last updated by the Trustees in August 2023 and a copy of which is submitted alongside this governance statement. The SIP is available online at (<https://www.continentaltevesukltd.co.uk/>).

The Scheme's investment strategy and SIP will be reviewed a minimum of every three years or as soon as any significant developments in investment policy or member demographics take place. The Trustees began the latest investment strategy review during the Scheme Year in October 2023 with assistance from the Scheme's investment consultant. The review was concluded post year end, with the Trustees considering the recommendations made.

Fund performance

The Trustees continually monitor the performance of the Scheme's investments throughout the year and receive quarterly performance reports from their investment manager. The LGIM funds currently available to members are rated highly by the Scheme's investment advisor and the Trustees currently have no concerns regarding the performance of the funds. The Trustees will continue to monitor the performance on a quarterly basis.

Processing Scheme transactions

The Trustees have a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members.

During the Scheme year, these transactions were undertaken on the Trustees' behalf by the Scheme administrator, Mercer (Aptia as at 1 January 2024), and its investment manager LGIM. The Trustees periodically review the processes and controls implemented by those organisations and consider them to be suitably designed to achieve these objectives. The Trustees have a service level agreement (SLA) in place with the Scheme administrator which covers the accuracy and timeliness of all core transactions and receive biannual reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator include dynamic checklists, a central financial control team separate to the administration team, daily monitoring of bank accounts, a dedicated contribution processing team, and four eyes checking of investment and banking transactions. The table below summarises the timescales agreed between the Trustees and the Scheme administrator:

Task	Service Level Agreement
Benefit Quotation	10 working days
Benefit Payments	5 working days
Death Benefit Quotation	1 working days
General Member Correspondence	10 working days
Invoice Payment	20 working days
Investment / Disinvestment Request	5 working days
Member Updates	5 working days
National Insurance Contributions (NICO) Enquires	20 working days
Scheme Event Work	As agreed with the Trustees

During the period covered by this statement, 96.7% of all work was completed within the agreed service levels. 95.6% of Core Financial Transactions were completed within agreed service levels, per the breakdown shown below.

Task	Number Processed	% completed in SLA
Deaths	127	98.4%
Pension Increases	5	100.0%
Transfer In/Out Quotes and Settlements	122	91.0%
Retirement Quotes and Settlements	316	96.2%
Weighted SLA (Core Financial Transactions)		95.6%

During this year, the Scheme has received 5 complaints related to delays in the settlement of AVC benefits, delays in obtaining accurate AVC information and quotes and concerns surrounding the absence of death benefits. It is important to note, however, all complaints have been resolved or are being progressed.

To improve service quality, the Trustees will:

- Discuss the complaints with the administration team to implement process improvements.
- Continue to monitor performance against the SLA on a regular basis and receive an annual Assurance Report on Internal Controls (AAF 01/06) from Mercer (Aptia from 1 January 2024).
- Perform periodic assessments of methods and efficiency of the Scheme's administrators and challenge them in terms of efficiency where necessary.

Charges and transaction costs

The law requires the Trustees to disclose the charges and transaction costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for members. These charges and costs are not limited to the ongoing charges on member funds but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report. The table sets out for each fund:

- Details of the Annual Management Charges (AMCs; the annual charge applied to money invested for the ongoing management of the fund).
- Details of the Total Expense Ratios (TERs; the total annual cost of the fund to the member, this is the total of the AMCs plus additional expenses incurred by the investment manager).
- The transaction costs – costs of buying and selling units in a fund.

Fund	AMC (%)	TER (%)	Transaction Cost (%)
LGIM World Equity Index Fund	0.201	0.205	0.022
LGIM Diversified Fund	0.301	0.338	-0.011
LGIM Short Dated Sterling Corporate Bond Index Fund	0.140	0.140	-0.026
LGIM Sterling Liquidity Fund	0.126	0.136	-0.053
LGIM Future World Annuity Aware Fund	0.150	0.150	-0.063

Source: LGIM, the costs and charges information provided by LGIM is for the 12-month period to 31 December 2023.

Funds in bold form part of the default lifestyle strategy.

In regard to the legacy AVC arrangements, Prudential confirmed that there are no explicit changes (AMC, TER or transaction costs) for the Prudential Deposit Fund.

The charges for the funds used in the default option are all below the charge cap of 0.75% p.a. and therefore comply with the charge cap legislation requirements.

Overall, the Trustees remain comfortable with the costs of the default arrangement and self-select funds with LGIM. The Trustees find the costs to be reasonable, offering good long-term value for members.

Cumulative effect of charges

Using the charges and transaction costs data provided by LGIM and in accordance with regulation 23(1)(ca) of the Administration Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance has been considered when providing these examples.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in the following (with the Scheme's relevant funds/strategies listed in brackets):

- The fund or strategy with the most members invested (The default arrangement)
- The most expensive fund (LGIM Diversified Fund)
- The least expensive fund (LGIM Sterling Liquidity Fund)

The illustrations that follow take into account the following elements:

- Initial savings pot size;
- Contributions, where applicable;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a young active member's pension pot, we have provided the below illustrations, which accounts for all estimated member costs, including the TER, transaction costs and inflation.

Illustrations for a "Young" Active member							
		Default lifestyle		Most expensive fund: LGIM Diversified Fund		Least expensive fund: LGIM Sterling Liquidity Fund	
Year End	Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	40	£61,609	£61,465	£60,440	£60,236	£59,288	£59,208
6	45	£93,265	£92,101	£84,129	£82,627	£75,927	£75,384
11	50	£129,653	£126,815	£109,648	£106,345	£92,153	£91,054
16	55	£161,618	£156,118	£137,140	£131,467	£107,978	£106,233
21	60	£192,563	£183,704	£166,756	£158,077	£123,412	£120,936
26 (retirement)	65	£214,489	£203,230	£198,662	£186,263	£138,463	£135,178

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustees have based this assumed member on data sourced from the administrator. The assumed member is age 39, with a normal retirement age of 65, using a starting pot size of £55,910 and a salary of £30,559. The member's total contributions (including those from the employer) are assumed to be 12% of the member's salary per annum and is assumed to increase in line with inflation.
4. Inflation is assumed to be 2.5% per annum.
5. Due to the asset transfer from Standard Life to LGIM on 13 May 2021, average transaction costs used only considers transactions costs from 2021.
6. Transaction cost provided by LGIM. Negative transactions are assumed to be 0.00% as negative transaction costs are not expected to continue consistently over time.

To illustrate the impact of charges on a typical deferred member's pension pot, we have provided the below illustrations, which accounts for all estimated member costs, including the TER, transaction costs and inflation.

Illustrations for an "Average" Deferred member							
		Default lifestyle		Most expensive fund: LGIM Diversified Fund		Least expensive fund: LGIM Sterling Liquidity Fund	
Year End	Age	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	51	£27,911	£27,828	£27,689	£27,596	£27,144	£27,107
2	52	£29,980	£29,508	£29,388	£28,896	£26,605	£26,425
3	53	£32,202	£31,173	£31,660	£30,607	£25,946	£25,597
4	54	£32,492	£31,366	£32,134	£30,961	£25,817	£25,434
5	55	£32,688	£31,476	£32,616	£31,320	£25,687	£25,273
10	60	£32,788	£31,501	£33,106	£31,682	£25,559	£25,112
15 (retirement)	65	£32,202	£31,173	£31,660	£30,607	£25,946	£25,597

Notes

1. Values shown are estimates at end of each year and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. To make this analysis representative of the membership, the Trustees have based this assumed member on data sourced from the administrator. The assumed member is age 50, with a normal retirement age of 65, using a starting pot size of £27,280. The member is assumed to be making no further contributions to the Scheme.
4. Inflation is assumed to be 2.5% per annum.
5. Due to the asset transfer from Standard Life to LGIM on 13 May 2021, average transaction costs used only considers transactions costs further than 2021.
6. Transaction cost provided by LGIM. Negative transactions are assumed to be 0.00% as negative transaction costs are not expected to continue consistently over time.

Assumptions

The illustrations above have been produced for a “young” active member and an “average” deferred member of the Scheme based on the Scheme’s membership data as of 31 December 2023. The illustration for the default assumes the member’s asset allocation remains fully invested in the current default strategy (invested with LGIM), which has been in place since May 2021.

The individual fund illustrations assume 100% of the member’s assets are invested in that fund up to the Scheme retirement age. The results are presented in real terms, i.e. in today’s money, to help members have a better understanding of what their pension pot could buy in today’s terms, should they invest in the funds above as shown.

Charges, transaction costs and estimated growth rates are assumed as follows:

	TER	Transaction costs	Growth rate assumptions
Default Lifestyle	0.20% p.a. for members 15 or more years from retirement, increasing to 0.34% p.a. as members de-risk, with this falling to 0.19% p.a. for members at retirement.	0.03% p.a. for members 16 or more years from retirement; an average of 0.00% for members within 12 years to retirement.	6.00% p.a. before inflation for members 16 or more years from retirement, falling to 2.50% p.a. before inflation for members at retirement.
LGIM Diversified Fund*	0.34% p.a.	Nil	4.00% p.a. before inflation
LGIM Sterling Liquidity Fund*	0.14% p.a.	Nil	2.00% p.a. before inflation

Charge and costs figures provided by LGIM; growth rate assumptions provided by Mercer. The Regulations require that where possible the transaction costs assumed in these illustrations are based on an average of the previous five years’ transaction costs for each fund, where available. The transaction costs shown above are for the 3 year period to December 2023.

*This fund has reported a negative transaction cost over the period of this Statement; we have therefore assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

Net Return on Investments

The Occupational Pension Schemes (Administration, Investment, Charges and Governance) (Amendment) Regulations 2021 (‘the 2021 Regulations’) introduce new requirements for trustees of ‘relevant’ occupational pension schemes.

Trustees of all relevant pension schemes are required to calculate and state the return on investments from the default and self-select funds, net of transaction costs and charges.

The tables below set out annualised net performance for the 1 and 5 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range which have been calculated in accordance with the statutory guidance.

Default Lifestyle Strategy:

Default Lifestyle Strategy	Annualised returns to 31 December 2023 (%)			
	1 Year	5 Years	10 Years	15 Years
Age of member				
25	16.9	10.1	7.4	9.9
45	16.9	9.8	5.5	8.4
55	7.4	4.9	4.5	*

Source: LGIM and Aberdeen Standard.

Performance shown net of all charges and transaction costs.

Performance has been calculated based on a fixed weighted average of underlying fund performance in the lifestyle, with the weightings as at the ages shown, taking into consideration that members were invested in the Aberdeen Standard Funds until 12/05/2021.

Members are invested in LGIM Global Equity Index Fund until they are 16 years from retirement. Assets will then gradually move into the LGIM Diversified Fund so that assets are fully invested in this fund when members are 10 years from retirement. When members reach 6 years from retirement, their savings will gradually move into the LGIM Short Dated Sterling Corporate Bond Index Fund and the LGIM Sterling Liquidity Fund.

*Performance not available as this period would exceed the Normal Retirement Age.

Self-Select Funds:

Self-Select Funds	Annualised returns to 31 December 2023 (%)	
	1 Year	Since inception
LGIM World Equity Index Fund	16.9	9.0
LGIM Diversified Fund	7.4	1.6
LGIM Short Dated Sterling Corporate Bond Index Fund	7.9	-0.6
LGIM Sterling Liquidity Fund	4.7	2.2
LGIM Future World Annuity Aware Fund	7.8	-8.6

Source: LGIM. Inception dates as 13 May 2021. Performance shown net of all charges and transaction costs.

Legacy AVC Funds:

Legacy AVC Funds	Annualised returns to 31 December 2023 (%)	
	1 Year	5 Years
Prudential Deposit Fund	5.0	1.6

Source: Prudential. Performance shown net of all charges and transaction costs.

Value for Members

A formal Value for Members assessment has been carried out over the reporting period, alongside the preparation of this governance statement, covering the following:

- Comparative assessment against three larger DC arrangements, considering the level of ongoing member-borne charges and transaction costs.
- Comparative assessment against three larger DC arrangements, considering investment performance net of all member-borne costs and charges.
- Standalone assessment of the Scheme's governance and administration arrangements, covering: core financial transactions; record keeping; default investment strategy; investment governance; Trustee knowledge and understanding; member communications; and management of conflicts of interest.

For the first two areas, the assessment is based on a comparison with three comparator arrangements (NEST Master Trust, The People's Pension Scheme, and Aviva Master Trust). These comparators were chosen as they can be a viable destination if the Scheme ever winds up.

Based on the assessment, the Trustees have concluded:

1. Costs and Charges: The Trustees have assessed the Scheme's costs and charges are competitive versus the comparator arrangements and are representing good value for members.
2. Net Investment performances: The Trustees have assessed the Scheme as offering good value from a net investment performance perspective.
 - The Scheme's default net investment performance has been good vs comparators, particularly for younger members. However, performance has been behind vs comparators for older members due to differing risk profiles.
 - The most popular self-select funds have been ahead of the comparator funds which have the most similar objectives over the time periods considered.
 - Performance will be considered as part of the investment strategy review considerations.
3. Governance and administration: The Scheme's productivity can be considered as reasonable. Although some of the measures have been met, there have been some governance and administration challenges. These will be monitored to ensure an adequate level of services is delivered to Scheme members. To further improve the service provided, the Trustees will:
 - Continue to monitor financial transactions and complaints. Discuss with the administration team what actions are being taken to improve the accuracy and services timescales.
 - Consider reviewing the Scheme specific data score and it is followed up with Aptia to get a more up to date score.
 - Consider reviewing the communications strategy and incorporate consideration of member preferences.
 - Consider increasing the frequency of Trustees' meetings to quarterly.
 - Full Training, on a triennial basis, on Conflicts of Interests for the Trustees and upon the introduction of a new member in the Trustee board.

Overall, considering all three areas set out above, the Trustees have assessed the Scheme is competitive and offering good value for members, noting that the Trustees are considering proposed actions ahead of the next assessment to maintain good value for members.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice.

The Trustees have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up to-date with relevant developments.

The Trustees include legislative updates, Trustee Knowledge, and Understanding on the agenda for each of the meetings, and the consultants highlight any training items on the agenda items. Two Trustee meetings were held over the course of 2023, which included training on:

- Updates on market movements (17 April 2023 and 2 August 2023)
- Requirements for inclusion of significant votes in the Implementation Statement (17 April 2023)
- New Code of Practice, including requirements for an Effective System of Governance ("ESOG") and Own Risk Assessment ("ORA") (17 April 2023)
- Initial training on the importance of cyber security (17 April 2023) with the Trustees agreeing to conduct a more detailed training session in the future
- New requirements for the Statement of Investment Principles regarding illiquid assets and asset allocation / performance fee requirements for the Chair Statement (2 August 2023)

In addition, the Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criteria when evaluating advisor performance or selecting new advisors.

Full details of the Pensions Regulator's Trustee Toolkit is provided to new Trustees after taking up office. All the Trustees are also required to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles. There were no new Trustees over the year.

During the year, the Trustees have demonstrated a working knowledge of the trust deed & rules by dealing with various member cases where consideration of the rules has been a factor.

The Trustees' Risk Register, Business Plan and Integrated Risk Management policy are standing items on each meeting agenda and are updated as required. The Trustees are therefore satisfied that they have demonstrated a working knowledge of documents setting out the Trustees' current policies.

The Trustees have drafted a SIP Implementation Statement for the year to 31 December 2023. This Statement sets out how the policies within the Scheme's SIP have been met over the Scheme Year along with voting and engagement information from the Scheme's investment manager. The Trustees therefore believe they have demonstrated a working knowledge of the SIP over the period covered by this statement.

Taking account of actions taken individually and as a Trustee Body, and the professional advice available to us, the Trustees consider that we are enabled properly to exercise our functions as Trustees of the Scheme.

In addition, while most schemes simply focus on trustee training and use of advisers, we believe that knowledge and understanding should also be extended to awareness of member demographics and member behaviour otherwise trustees cannot be certain that a scheme remains fit for purpose. The Trustees began a strategy review during the Scheme Year (concluded post year-end) where member demographics were a key consideration of the continued suitability of the investment arrangements.

The Trustees are comfortable that we have demonstrated sufficient knowledge of the law relating to pension schemes and trusts and the principles relating to the funding and investment of pension schemes. I am also satisfied that the Trustees have demonstrated a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out the Trustees' current policies.

The Chair's Statement regarding DC governance was approved by the Trustees and signed on their behalf by:

A handwritten signature in black ink, consisting of a large, fluid loop followed by a horizontal stroke that extends to the right and then curves back down.

Mr T Whyatt MBE

Chair of the Trustees

Date: 22 July 2024