Morgan Stanley

Morgan Stanley UK Group Top-Up Pension Plan

Annual statement regarding governance

The Trustee of the Morgan Stanley UK Group Top-Up Pension Plan (the 'Plan') is required to prepare a statement (the 'Statement') on governance and include it in the annual report[1].

This Statement has been prepared by the Trustee, with advice from Mercer. Mercer provides the Trustee with pensions and investment consulting services.

This document sets out the Statement covering the period from 1 January 2022 to 31 December 2022 and describes how the Plan meets its legal requirements in a number of key areas and details:

- The investment options in which members' funds are invested (the Plan's default investment option, additional lifestyle options and self-select fund range);
- The requirements for processing financial transactions;
- Net return on investments;
- An illustration of the cumulative impact of transaction costs and charges;
- The report on the charges and transaction costs for the investments used in the default and self-select arrangements and the extent to which the charges and costs represent good value for members; and
- How the combined knowledge and understanding of the Trustee and its advisers enables the Trustee to properly run the Plan.

This Statement is published on a publicly available website at **http://www.morganstanley.com/disclosures/the-morgan-stanley-uk-group-pension-plan/** and will be signposted in the annual benefit statements.

1. Default investment option

A default arrangement is the investment fund or funds into which pension contributions are paid where members have not made their own choice (or "self-selected") where they want to invest their pension savings.

The current default arrangement for the Plan is the Diversified Default Option ("DDO"). The DDO is a form of lifestyle strategy. Lifestyle strategies are designed to meet the objectives of maximising the value of a member's assets at retirement and protecting their accumulated assets in the years approaching retirement.

The DDO attempts to achieve these objectives by varying the mix of assets over a member's working life using a combination of the following three funds: Active Diversified Growth Fund, Active Diversified Retirement Fund and Cash Fund.

Contributions are invested in the Active Diversified Growth Fund until a member reaches the age of 50. From this time onwards, a proportion of each member's accumulated assets are switched into the Active Diversified Retirement Fund each month and then also the Cash Fund from age 55. The final allocation at age 65 is a 75% allocation to the Active Diversified Retirement Fund and 25% allocation to the Cash Fund. If a member continues in the Plan past age 65, without taking retirement, then the allocation will periodically be re-balanced in line with the 75% / 25% split.

The Trustee recognises that this will not be appropriate for all members and therefore makes available a range of self-select funds, and encourages members to make their own investment decisions where appropriate.

1 Under legislation set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (the 'Administration Regulations').

The most recent review of the investment arrangements

A formal comprehensive review of the default arrangement, the DDO, was undertaken by the Trustee during the previous Plan year (at the September 2021 Investment Committee meeting), reported on in last year's Statement. This review encompassed all aspects of the default strategy, in particular, the ongoing appropriateness of the strategy based on member analysis. It considered the following aspects:

- each component of the default investment option including the growth phase structure,
- at-retirement objective including the appropriateness of this with respect to the Plan's membership and industry trends,
- the default investment option pre-retirement strategy and whether it remained an appropriate method of transitioning members to their final allocation at retirement,
- the objectives of the default investment option itself,
- industry trends generally and glidepath design,
- gender pension gap,
- key component funds,
- consideration of alternative lifestyles, and,
- Morgan Stanley Plan data, including how members were taking their benefits at retirement, member's projected pot sizes, demographic profile of the membership and in particular in the default investment option.

The conclusions of this review were:

- The Plan is set up to broadly provide a good member outcome for the majority of members, so long as members contribute a sufficient level and the investment returns are in line with or better than the assumptions.
- Drawdown remained a suitable at-retirement target for the Plan.
- A number of alternative glidepaths were considered, but it was agreed to make no changes to the default glidepath.
- It was agreed to not make available an annuity and cash lifestyles, but to make available a self-select fund which aims to track annuity prices.

A number of investment changes took place during the Plan year both as a result of this review and as a result of ongoing governance.

Firstly, at the September 2021 meeting, the Trustee approved the decision to remove the Genesis Emerging Markets Equity Fund from the fund range and replace it with the (existing) Passive Emerging Markets Equity Fund. This change was implemented in February 2022.

As part of the above detailed review (which took place prior to the period covered by this Statement), the Trustee agreed that the LGIM Future World Annuity Aware Fund be made available for self-selection as the 'MS Pre-Annuity Fund'. Additionally, at the December 2021 Trustee meeting, it was agreed to replace the BlackRock Institutional Sterling Liquidity Fund with BlackRock Liquid Environmentally Aware Fund. Both of these changes were implemented in March 2022.

At the May 2022 meeting, the Investment Committee agreed to replace existing holdings of 33% in each of Abrdn GARS, Ruffer Total Return International and Nordea Alpha 15 Multi Asset with a blend of 50% Ruffer Diversified Return and 50% Nordea Alpha 15 Multi Asset within the Active Absolute Return Fund. This change also impacted the Active Diversified Growth Fund and Active Diversified Retirement Fund, both of which invest in the Active Absolute Return Fund and are part of the DDO. This change was implemented in June/July 2022.

In June 2022, the Trustee approved the proposed addition of a new self-select Shariah fund – the HSBC Islamic Global Equity Fund as the 'MS Passive Islamic Global Equity Fund'. This addition was implemented in September 2022.

Changes were communicated to members during the year through a comprehensive communications campaign. Members were informed of what would happen if they took no action and what other courses of action they might want to consider for themselves.

The next default investment option review will be conducted no later than September 2024

2. Requirements for processing core financial transactions

- Investment of contributions paid to the Plan;
- Transfers of members' assets into and out of the Plan;
- Transfers of members' assets between different investment options available in the Plan; and
- Payments from the Plan to, or in respect of, members.

The requirements of regulations have been met and core financial transactions have been processed promptly and accurately by:

- Maintaining a Risk Register, which outlines risks in relation to processing core financial transactions. The Plan's Risk Register outlines all of the risks to Plan members and these are monitored and reviewed on an annual basis.
- Having Capita Pension Solutions Limited ("Capita"), a professional third party administrator, carry out the administration of Plan. The Trustee has agreed minimum timescales with Capita for processing requests, including core financial functions. The Service Level Agreements (SLAs) in place cover both the accuracy and timeliness of the financial transactions. Capita's administration reports are reviewed quarterly by the Trustee to determine whether any service issues have arisen. Performance against SLAs for the year to 31 December 2022, in regards to cases across both this Plan and the Morgan Stanley UK Group Top-Up Pension Plan, was 98.8%. The detailed SLA achieved over 2022 are presented in the table below:

CAPITA CYBER INCIDENT

As noted above, Capita is the administrator of the Morgan Stanley UK Group Pension Plan. The Trustee has been informed by Capita that Capita experienced a cyber incident following an unauthorised access to Capita's systems on or around 22 March 2023. We are aware that the Breach has been widely reported on in the media.

The Trustee was notified by Capita on 6 June 2023 that personal data relating to a small number of Plan members, which Capita processes on behalf of the Trustee, has been part of the data exfiltrated as a result of the cyber incident. The Trustee has taken action to comply with its regulatory obligations, including informing relevant regulators and communicating with the limited number of affected members.

REPORTING PERIOD	CASES RECEIVED	CASES COMPLETED IN SLA	SLA ACHIEVED
Q1 2022	4,809	4,728	98.32%
Q2 2022	3,724	3,680	98.82%
Q3 2022	4,164	4,120	98.94%
Q4 2022	5,290	5,239	99.04%

*This assessment includes both Main and Top-up plan.

- Ensuring that detailed disaster recovery plans are in place with the administrator and other relevant third parties.
- The Schedule of Contributions sets out timescales for the Company to remit monthly contributions to the Plan. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions is reviewed by the Company.
- The Trustee has appointed Scottish Widows to provide investment platform services to the Plan with oversight from Mercer Workplace Savings ('MWS'). The Trustee last conducted a full formal review of the Scottish Widows Investment Platform on appointment in 2011 and conducts an informal annual reviews.
- The Trustee also appoints an independent auditor (Deloitte LLP) to carry out an annual audit of the Plan, including the core financial transactions that have taken place during the Plan year.

The Trustee continues to monitor the situation and to engage with the relevant regulators and the affected members. The Trustee is investigating how the issue arose and considering steps it can take to prevent a similar issue arising in future. This includes regular communications with Capita and working closely with experts in the relevant fields.

REBALANCING ISSUE

During the Plan year, the Trustee established that certain fund rebalancing transactions were not correctly carried out for a selection of the funds made available under the DDO and as self-select options. The Trustee implemented out-of-cycle rebalancing instructions in November 2022 to bring the affected funds within strategic allocation ranges. The Trustee is assessing the impact on members' accounts and remediations will be implemented where appropriate for members that have been detrimentally impacted. A review process has been undertaken to establish the cause of the issue and to improve controls to prevent similar issues arising in future.

With the exception of the cyber incident and the rebalancing issue, the Trustee is satisfied that over the period covered by this Statement:

- the administrator was otherwise 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
- all other core financial transactions have been processed promptly and accurately during the Plan year.

3. Charges and transaction costs

As required by regulation 25 of the Administration Regulations, the Trustee is required to report on the charges and transaction costs for the investments used in the default and self-select arrangements and their assessment of the extent to which the charges and costs represent good value for members. The statutory guidance has been considered in reporting this information.

The Trustee is required to set out the on-going charges borne by members in this Statement. These charges, also known as the total expense ratio ("TER"), are a measure of the total costs associated with managing and operating an investment fund. These costs consist primarily of management fees and additional variable expenses that the investment manager incurs in operating the underlying fund, such as fees to auditors, custodians and accountants and other operational expenses. The TER is paid by the members and is reflected in the unit price of the funds. It does not include transaction costs incurred within the fund, which are covered later in this section.

The Trustee is also required to disclose transaction cost figures that are borne by members separately. In the context of this Statement, the transaction costs shown are those incurred when the Plan's fund managers buy and sell assets within investment funds.

The charges and transaction costs have been supplied by Scottish Widows, the Plan's investment platform provider. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance.

We note that while transaction costs and charges are an important consideration, they are not the only criteria the Trustee assesses. A number of other qualitative and quantitative factors are also considered in a holistic manner when making strategic decisions in relation to investment strategy with good outcomes for members being the ultimate goal for the Plan.

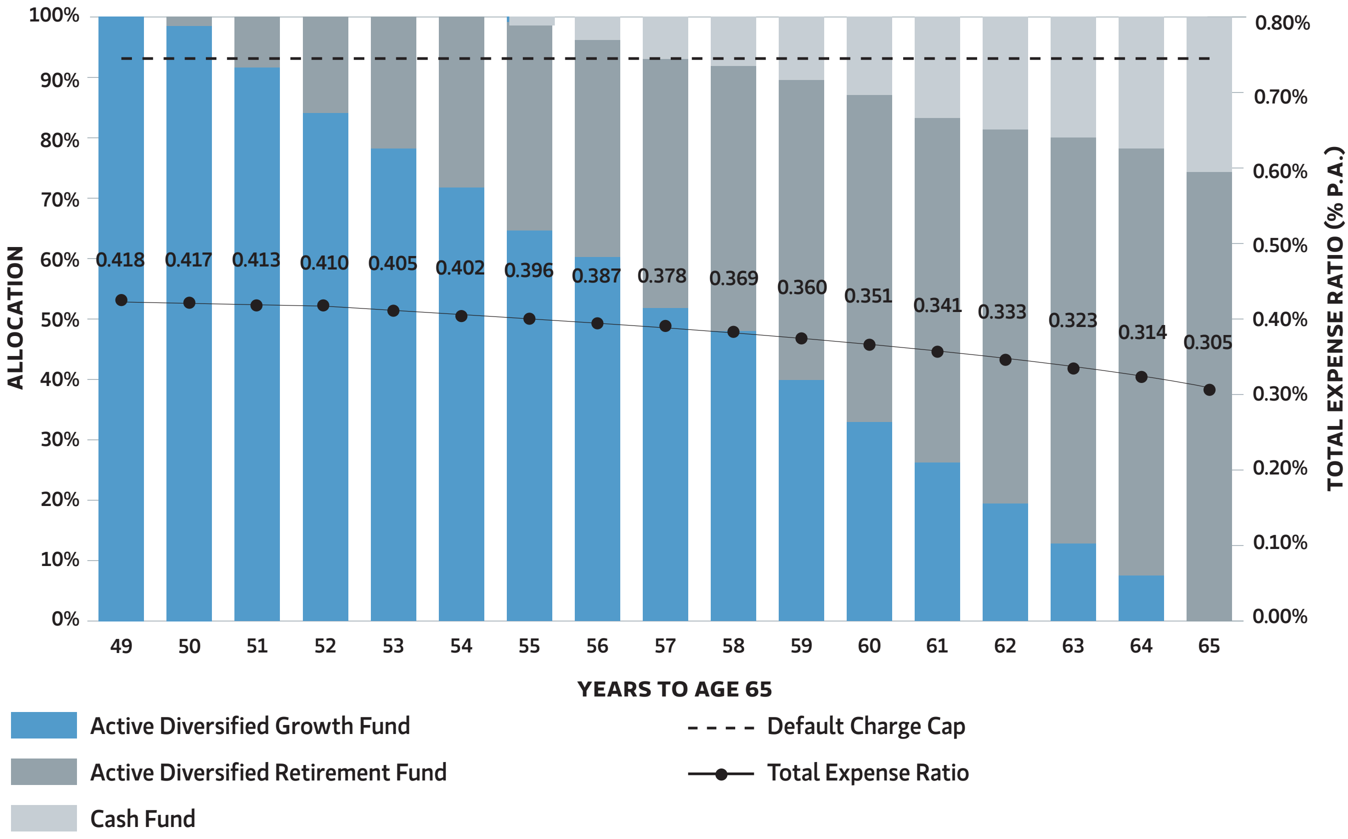
The following sections provide further detail on the charges applicable to the funds in the DDO as well as a summary of the charges across the funds in the self-select fund range.

FUND CHARGES

Charges relating to investment management are deducted from the funds in which Plan members are invested. All other costs associated with running the Plan, including administration, investment platform, advisory and member communication costs are paid by the Company. The only exceptions are legacy AVC arrangements where members will also incur some administration expenses.

The Plan provides details of the costs borne by members in two forms – the annual management charge ("AMC") and the total expense ratio ("TER"). The AMC is the core charge that covers the cost of accessing and managing a fund. Where applicable, this includes a Mercer Intermediary Charge (for the use of the Mercer Workplace Savings (MWS) service), as well an Investment Only platform fee for accessing funds via the Scottish Widows platform. The TER includes the AMC plus variable costs associated with managing a fund such as administrative, audit and legal fees.

The Plan complies with the regulations on charge controls introduced from April 2015. Specifically, the Plan's default investment option, the DDO, has a TER that is well below the charge cap of 0.75% p.a. at each stage of the life-styling process. The TER payable under the default investment arrangement will vary depending on the stage that each member has reached in the de-risking process. The DDO glide path is illustrated on the next page:



The following sections provide details on the charges applicable to the funds in the default investment option as well as a summary of the charges across the funds in the self-select fund range.

ACTIVE DIVERSIFIED GROWTH FUND

The Active Diversified Growth Fund is a bespoke 'fund of funds' that aims to achieve capital growth via investment in return-seeking assets such as, but not limited to, equities. This fund can also be invested in by members on a self-select basis.

Within the DDO, the Active Diversified Growth Fund is held by members until age 50, when it is gradually sold in favour of the Active Diversified Retirement Fund. The Cash Fund is then gradually introduced, from age 55. The final allocation at age 65 is 75% in the Active Diversified Retirement Fund and 25% in the Cash Fund.

The current strategic asset allocation of the Active Diversified Growth Fund and its ongoing charges are shown in the following table.

WEIGHT (%)	CURRENT UNDERLYING COMPONENT	ANNUAL MANAGEMENT CHARGE (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
60.0	Passive Global Equity	0.147	0.174	0.052
22.5	Active Absolute Return	0.892	0.907	0.553
10.0	Active Multi Asset Credit	0.517	0.607	-0.036
7.5	Active UK Property	0.667	0.717	0.345
Active Diversified Growth Fund		**0.385**	**0.418**	**0.179**

Source: Scottish Widows, as at December 2022.

ACTIVE DIVERSIFIED RETIREMENT FUND

The Active Diversified Retirement Fund is a bespoke 'fund of funds'. It is used within the DDO (beginning from age 50) and is also available as a self-select option. The current strategic asset allocation of the Active Diversified Retirement Fund is shown in the table below.

WEIGHT (%)	CURRENT UNDERLYING FUND	ANNUAL MANAGEMENT CHARGE (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
35.00	Passive Global Equity	0.147	0.174	0.052
16.25	Active Absolute Return	0.892	0.907	0.553
10.00	Active Multi Asset Credit	0.517	0.607	-0.036
3.75	Active UK Property	0.667	0.717	0.345
8.75	Active Global Corporate Bond	0.127	0.267	0.031
8.75	Active UK Corporate Bond	0.367	0.377	0.016
8.75	Passive Gilt	0.072	0.072	0.073
8.75	Passive Index-Linked Gilt	0.072	0.076	0.025
Active Diversified Retirement Fund		**0.322**	**0.359**	**0.131**

Source: Scottish Widows, as at December 2022.

CASH FUND

The Cash Fund invests primarily in money market instruments through investment in securities issued or guaranteed by entities that meet the Fund's environmental criteria. The fund is introduced within the DDO starting from age 55 for ten years. It is also available as a self-select option. The fund is aimed at members who are looking to withdraw a cash lump sum at retirement and/or wish to minimise their exposure to the risk inherent in investment markets. However, over the long term, cash is likely to underperform other investment asset classes and inflation.

The underlying fund is actively managed by BlackRock. As at December 2022, the AMC and TER for the fund were the same, at 0.142% p.a. (based on data provided by Scottish Widows) and transaction costs of 0.02% p.a.

SELF-SELECT FUND RANGE

As at the Plan year end, the Plan's self-select Fund Range is comprised of 25 funds, including the three funds used in the DDO described above.

TERs deducted across the Plan's fund range (excluding AVCs) vary from 0.072% p.a. to 0.907% p.a. of the value of a member's investment in that fund. The TERs for the Plan's self-select Fund Range, also including the default funds noted above, are shown in the following table.

The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding calculations and disclosures of transaction costs, which comply with the updated Administration Regulations. The Trustee has requested this information from the underlying fund managers, through the Plan's investment platform provider where applicable, and has included it in the table on the next page.

FUND	ANNUAL MANAGEMENT CHARGE (% P.A.)	ADDITIONAL FUND EXPENSES (% P.A.)	TOTAL EXPENSE RATIO (% P.A.)	TRANSACTION COSTS (% P.A.)
Active Global Growth Equity	0.617	0.030	0.647	-0.013
Active Global Equity	0.692	0.150	0.842	0.027
Active Emerging Markets Equity	0.817	0.070	0.887	0.120
Active Emerging Markets Debt	0.577	0.170	0.747	0.090
Active Global Corporate Bond	0.127	0.140	0.267	0.031
Active UK Corporate Bond	0.367	0.010	0.377	0.016
Active UK Property	0.667	0.050	0.717	0.345
Active Multi-Asset Credit	0.517	0.090	0.607	-0.036
Active Sustainable Equity	0.717	0.140	0.857	0.240
Active Diversified Growth *	0.385	0.033	0.418	0.179
Active Diversified Retirement *	0.322	0.037	0.359	0.131
Active Absolute Return	0.892	0.015	0.907	0.553
Passive UK Equity	0.072	0.003	0.075	0.066
Passive Global Small Cap Equity	0.402	0.000	0.402	0.104
Passive Emerging Markets Equity	0.172	0.050	0.222	-0.028
Passive Global Equity	0.147	0.027	0.174	0.052
Passive US Equity	0.072	0.008	0.080	0.021
Passive Europe (ex-UK) Equity	0.072	0.015	0.087	0.008
Passive Japan Equity	0.072	0.012	0.084	-0.024
Passive Pacific Rim (ex-Japan) Equity	0.072	0.010	0.082	0.000
Passive Gilt	0.072	0.000	0.072	0.073
Passive Index-Linked Gilt	0.072	0.004	0.076	0.025
Passive Islamic Global Equity	0.342	0.000	0.342	-0.006
Pre-Annuity	0.117	0.000	0.117	0.000
Cash *	**0.142**	**0.000**	**0.142**	**0.015**

Figures provided by Scottish Widows, as at December 2022. *Fund is part of the Diversified Default Option

LEGACY ADDITIONAL VOLUNTARY CONTRIBUTIONS ('AVCS')

As at 31 December 2022, there are members of the Plan with AVC investments in unit-linked funds and with-profits funds with Standard Life. Standard Life provided the following charge and cost information for the funds invested in by the Plan:

FUND	TER (% P.A.)	TRANSACTION COSTS (% P.A.)
Pension Inflation Plus Fund*	*	-0.008
Pension Millennium With Profits Fund*	*	0.021
Pension With Profits Fund*	*	0.042
Standard Life European Equity Pension Fund	1.014	0.097
Standard Life Far East Equity Pension Fund	1.075	0.165
Standard Life FTSE Tracker Pension Fund	1.007	0.003

FUND	TER (% P.A.)	TRANSACTION COSTS (% P.A.)
Standard Life International Equity Pension Fund	1.022	0.140
Standard Life Managed Pension Fund	1.023	0.181
Standard Life Mixed Bond Pension Fund	1.011	0.068
Standard Life Multi Asset Managed (20-60% Shares) Pension	1.020	0.168
Standard Life North American Equity Pension Fund	1.008	0.248
Standard Life Property Pension Fund	1.032	0.216
Standard Life Stock Exchange Pension Fund	1.025	0.171
Standard Life UK Equity Pension Fund	1.008	0.072
Standard Life UK Smaller Companies Pension Fund**	1.500	-0.025
Standard Life At Retirement (Multi Asset Universal) Pension Fund	1.040	0.224
Standard Life Money Market Pension Fund	1.009	0.000
Standard Life Cash Pension Fund	1.009	0.037

Figures provided by Standard Life; as at December 2022.

* With respect to the with-profits and inflation plus policies, payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, for with-profits policies the actual performance received by members, net of charges, is only known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of any 'smoothing'.

The Trustee, with the assistance of their adviser Mercer, undertook a thorough review of the legacy AVC arrangements in the latter half of 2022. As a result of this review, the Trustee wrote to members to remind them to ensure the suitability of their investments for their personal circumstances and of the alternative (cheaper) options available within the DC Section. The next review of the Plan's AVC options is scheduled for the second half of 2024.

ILLUSTRATIONS OF THE EFFECTS OF COSTS AND CHARGES

The Trustee fully supports transparency of costs for members. However, a key consideration for members is the performance delivered on a net of fees basis. In this respect, the Trustee believes that it is important to note that a cheaper fund may not necessarily deliver better value.

Using the costs and charges data as set out in this Statement, the Trustee has prepared illustrations detailing the impact of the costs and charges typically borne by a member of the Plan on their Retirement Account. 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".

The illustrations below have taken into account the following elements:

- Pension pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of costs and charges on a typical member's Retirement Account, the Trustee has provided an example below for a typical active member's pension pot.

The illustrations include member-borne costs, including TERs and transaction costs but does not include costs involved with trading in and out of the funds. Any transaction costs associated with buying and selling investments will be due to all investors buying and selling investment funds on the day and the actual amount (if any) is only known after the investments are traded. These costs are reflected in the unit price of funds.

As each member has a different amount of savings within the Plan and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has made a number of 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 costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne costs, including TERs and transaction costs.
- The transaction cost figures used in the illustration are based on those illustrated previously.

The illustration is shown for the default arrangement and the lowest charging and highest charging self-select fund in which members are invested. The funds illustrated, as well as the DDO are:

- The fund with the highest member borne costs: **Active Absolute Return**
- The fund with the lowest member borne costs (based on the TER and average transaction costs in previous years): **Passive Pacific Rim (ex Japan) Equity.**

ILLUSTRATION 1: ACTIVE MEMBER (MEDIAN AGE)

	DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT)		ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE)		PASSIVE PACIFIC RIM (EX JAPAN) EQUITY (LEAST EXPENSIVE)	
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
42	£25,271	£25,271	£25,271	£25,271	£25,271	£25,271
45	£71,455	£70,471	£71,924	£69,248	£71,652	£71,511
50	£161,088	£156,179	£163,651	£150,380	£162,179	£161,462
55	£266,983	£254,741	£276,267	£242,449	£272,319	£270,452
60	£384,946	£362,200	£414,527	£346,927	£406,320	£402,513
65	£508,431	£472,956	£584,272	£465,489	£569,353	£562,528

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. The starting fund size is assumed to be £25,271 (median pot size for active members aged between 41 and 43), and this person is 42 years old. This member is assumed to retire at 65.
4. Inflation and salary increases are assumed to be 2.5% per annum.
5. The contribution rate is assumed to be 16% per annum with a salary of £95,000.
6. Member data has been sourced from Capita.
7. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2022, shown earlier in this Statement.
8. From Scottish Widows' figures, the default strategy has an assumed TER of 0.418% p.a. more than 15 years from retirement, falling to 0.305% p.a. at retirement.
9. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. Scottish Widows have only been able to provide historic transaction costs for these funds for the four years to 31 December 2022; consequently our assumptions are based on averages of the transaction costs for these four years, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	0.156% p.a. more than 15 years from retirement, falling to 0.099% p.a. at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	0.661% p.a.
LEAST EXPENSIVE FUND: MS PACIFIC RIM (EX JAPAN) EQUITY	0.000% p.a.

Where funds have negative average transaction costs over the period, we have assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

10. The projected real gross growth rates for each fund are based on Mercer assumptions, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	3.7% p.a. real return more than 15 years from retirement, falling to 2.19% p.a. real return at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	3.5% p.a. real return
LEAST EXPENSIVE FUND: MS PACIFIC RIM (EX JAPAN) EQUITY	4.0% p.a. real return

An earlier version of this Statement included an inaccurate illustration for the above "Illustration 1: Active Member (median age)". The illustration did not correctly account for future contributions and therefore the illustrated values were understated. This version shows the correct figures.

Additional example illustrations of the impact of costs and charges on a typical member's pension pot are provided below.

ILLUSTRATION 2: DEFERRED MEMBER (MEDIAN AGE)

	DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT)		ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE)		PASSIVE PACIFIC RIM (EX JAPAN) EQUITY (LEAST EXPENSIVE)	
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
47	£30,846	£30,846	£30,846	£30,846	£30,846	£30,846
48	£32,037	£31,854	£32,138	£31,636	£32,080	£32,054
49	£33,270	£32,889	£33,484	£32,446	£33,363	£33,308
54	£39,801	£38,268	£41,109	£36,820	£40,591	£40,359
59	£46,463	£43,567	£50,470	£41,783	£49,385	£48,902
64	£52,655	£48,318	£61,963	£47,415	£60,085	£59,253

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. The starting fund size is assumed to be £30,846 (median pot size for deferred members aged 46-48), and this person is 47 years old. This member is assumed to retire at 65.
4. Inflation is assumed to be 2.5% per annum.
5. Member data has been sourced from Capita.
6. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2022, shown earlier in this Statement.
7. From Scottish Widows' figures, the default strategy has an assumed TER of 0.418% p.a. more than 15 years from retirement, falling to 0.305% p.a. at retirement.
8. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. Scottish Widows have only been able to provide historic transaction costs for these funds for the four years to 31 December 2022; consequently our assumptions are based on averages of the transaction costs for these four years, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	0.156% p.a. more than 15 years from retirement, falling to 0.099% p.a. at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	0.661% p.a.
LEAST EXPENSIVE FUND: MS PACIFIC RIM (EX JAPAN) EQUITY	0.000% p.a.

Where funds have negative average transaction costs over the period, we have assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

9. The projected real gross growth rates for each fund are based on Mercer assumptions, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	3.7% p.a. real return more than 15 years from retirement, falling to 2.19% p.a. real return at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	3.5% p.a. real return
LEAST EXPENSIVE FUND: MS PACIFIC RIM (EX JAPAN) EQUITY	4.0% p.a. real return

ILLUSTRATION 3: YOUNGEST ACTIVE MEMBER

	DEFAULT INVESTMENT OPTION (DEFAULT ARRANGEMENT)		ACTIVE ABSOLUTE RETURN FUND (MOST EXPENSIVE)		PASSIVE PACIFIC RIM (EX JAPAN) EQUITY (LEAST EXPENSIVE)	
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
18	£264	£264	£264	£264	£264	£264
20	£959	£950	£963	£938	£961	£959
25	£2,945	£2,871	£2,983	£2,780	£2,961	£2,950
30	£5,346	£5,126	£5,463	£4,871	£5,395	£5,362
35	£8,248	£7,775	£8,507	£7,243	£8,356	£8,285
40	£11,755	£10,885	£12,245	£9,935	£11,959	£11,827
45	£15,993	£14,538	£16,834	£12,990	£16,342	£16,118
50	£21,067	£18,789	£22,468	£16,457	£21,675	£21,318
55	£26,765	£23,440	£29,384	£20,391	£28,163	£27,618
60	£32,618	£28,125	£37,876	£24,855	£36,057	£35,251
65	£36,694	£31,483	£48,302	£29,921	£45,661	£44,501

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. The starting fund size is assumed to be £264 (pot size for the youngest member), and this person is 18 years old. This member is assumed to retire at 65.
4. Inflation and salary increases are assumed to be 2.5% per annum.
5. The initial contribution amount is assumed to be £325 per annum (representative starting contribution amount).
6. Member data has been sourced from Capita.
7. Charges assumed for each individual fund are as provided by Scottish Widows as at 31 December 2022, shown earlier in this Statement.
8. From Scottish Widows' figures, the default strategy has an assumed TER of 0.418% p.a. more than 15 years from retirement, falling to 0.305% p.a. at retirement.
9. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. Scottish Widows have only been able to provide historic transaction costs for these funds for the four years to 31 December 2022; consequently our assumptions are based on averages of the transaction costs for these four years, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	0.156% p.a. more than 15 years from retirement, falling to 0.099% p.a. at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	0.661% p.a.
LEAST EXPENSIVE FUND: MS PASSIVE UK EQUITY	0.000% p.a.

Where funds have negative average transaction costs over the period, we have assumed these costs to be nil, as negative costs are not expected to continue consistently over time.

10. The projected real gross growth rates for each fund are based on Mercer assumptions, as follows:

DEFAULT ARRANGEMENT: DIVERSIFIED DEFAULT OPTION	3.7% p.a. real return more than 15 years from retirement, falling to 2.19% p.a. real return at retirement.
MOST EXPENSIVE FUND: MS ACTIVE ABSOLUTE RETURN	3.5% p.a. real return
LEAST EXPENSIVE FUND: MS PASSIVE UK EQUITY	4.0% p.a. real return

ILLUSTRATION 4: AVCS

	STANDARD LIFE UK SMALLER COMPANIES PENSION FUND (MOST EXPENSIVE)		STANDARD LIFE MONEY MARKET PENSION FUND (LEAST EXPENSIVE)	
AGE	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
58	£52,275	£52,275	£52,275	£52,275
59	£54,366	£53,551	£52,536	£52,006
60	£56,541	£54,857	£52,799	£51,739
61	£58,802	£56,196	£53,063	£51,473
62	£61,154	£57,567	£53,328	£51,208
63	£63,601	£58,971	£53,595	£50,945
64	£66,145	£60,410	£53,863	£50,683
65	£68,790	£61,884	£54,132	£50,423

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. The starting fund size is assumed to be £52,275, and this person is 58 years old. This member is assumed to retire at 65.
4. Inflation is assumed to be 2.5% per annum.
5. The member is assumed to be making no further contributions to the Plan.
6. Charges assumed for are as provided by Standard Life as at 31 December 2022, shown earlier in this Statement.
7. The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. Standard Life have only been able to provide historic transaction costs for these funds for the two years to 31 December 2022; consequently our assumptions are based on averages of the transaction costs for two years, and are 0.00% and 0.02% respectively.
8. The projected gross growth rates are based on Mercer assumptions, and are 4.0% p.a. and 0.5% p.a. respectively (real).

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.

From 1 October 2021, trustees of all relevant pension schemes, regardless of asset size, are required to calculate and state the return on investments from their default and self-select funds, net of transaction costs and charges.

The tables below set out annualised net performance for the 5 and 10 year periods for the lifestyle arrangements (for age 25, 45, and 55) and for the self-select fund range.

LIFESTYLES

AGE	DIVERSIFIED DEFAULT OPTION	ANNUALISED RETURNS TO DECEMBER 2022 (%)
	5 years	10 years
25	3.1	5.5
45	3.1	5.5
55	–*	–*

Source: Scottish Widows and Mercer.

* 5 and 10 years performance not available for the Active Diversified Retirement due to fund's inception date. Performance for the 10 years to retirement on the glide path unable to be calculated as longer-term performance not available for the Active Diversified Retirement Fund, which is part of the DDO glide path.

SELF-SELECT FUNDS

FUND	ANNUALISED RETURNS TO DECEMBER 2022 (%)			INCEPTION DATE
	5 years	10 years	Since Inception	
Active Global Growth Equity	10.3	16.8	15.8	30/11/2009
Active Global Equity	10.2	13.2	12.8	13/10/2011
Active Emerging Markets Equity	-5.1	1.7	3.4	13/10/2011
Active Emerging Markets Debt	0.5	0.9	1.7	13/10/2011
Active Global Corporate Bond*	–	–	-0.5	14/11/2018
Active UK Corporate Bond	-0.7	2.6	3.8	13/10/2011
Active UK Property*	–	–	0.5	16/11/2018
Active Multi-Asset Credit*	–	–	0.1	15/11/2018
Active Sustainable Equity*	–	–	11.0	17/12/2018
Active Diversified Growth	3.1	5.5	6.1	13/10/2011
Active Diversified Retirement*	–	–	2.5	01/11/2018
Active Absolute Return	0.6	1.9	2.5	13/10/2011
Passive UK Equity	2.9	6.3	7.0	13/10/2011
Passive Global Small Cap Equity*	–	–	8.6	10/12/2018
Passive Emerging Markets Equity*	–	–	3.7	13/11/2018
Passive Global Equity	4.9	8.7	9.4	13/10/2011
Passive US Equity	11.1	15.7	15.5	13/10/2011
Passive Europe (ex-UK) Equity	5.0	9.0	9.2	13/10/2011
Passive Japan Equity	2.4	9.0	8.0	14/10/2011
Passive Pacific Rim (ex-Japan) Equity	3.5	6.6	7.5	14/10/2011
Passive Gilt	-3.6	1.9	2.8	13/10/2011
Passive Index-Linked Gilt	-5.1	2.0	2.8	13/10/2011
Passive Islamic Global Equity*	–	–	-7.0	16/09/2022
Pre-Annuity*	–	–	-11.4	15/06/2022
Cash	0.6	0.5	0.5	15/08/2006

Source: Scottish Widows and Mercer.

* 5 and 10 years performance not available due to inception within the plan.

AVC FUNDS

FUND	ANNUALISED RETURNS TO DECEMBER 2022 (%)		
	5 years	10 years	15 years
Pension Inflation Plus Fund	*	*	*
Pension Millennium With Profits Fund	*	*	*
Pension With Profits Fund	*	*	*
Standard Life European Equity Pension Fund	5.3	8.3	5.5
Standard Life Far East Equity Pension Fund	1.9	7.6	6.0
Standard Life FTSE Tracker Pension Fund	2.2	5.8	4.5
Standard Life International Equity Pension Fund	6.4	10.5	7.7
Standard Life Managed Pension Fund	2.8	6.2	5.0
Standard Life Mixed Bond Pension Fund	-2.8	0.9	3.1
Standard Life Multi Asset Managed (20-60% Shares) Pension	1.1	4.3	4.4
Standard Life North American Equity Pension Fund	10.9	15.2	11.5
Standard Life Property Pension Fund	0.3	4.1	2.3
Standard Life Stock Exchange Pension Fund	4.5	8.6	6.5
Standard Life UK Equity Pension Fund	1.2	5.6	3.9
Standard Life UK Smaller Companies Pension Fund	1.8	9.3	9.6
Standard Life At Retirement (Multi Asset Universal) Pension Fund	0.9	2.7	4.5
Standard Life Cash Pension Fund	0.1	0.1	0.6

Source: Standard Life.

* Performance information is not available for With Profits funds. Members receive annual bonuses, which do not reflect the underlying fund's investment performance due to smoothing (keeping some of the return back in good years to support bonus rates in years where the investment return has been lower). The timing of the annual bonus varies by Provider. The amount a member will receive will depend on when they take their benefit and any terminal bonus payable at the time. The level of terminal bonus is dependent on a number of factors and typically is only guaranteed at the normal retirement age under the policy, or death. The Trustee will consider how best to improve reporting for net performance for With Profits Funds in the future in light of any updated statutory guidance.

4. Value for Members

The Trustee is required to assess 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 Trustee considers 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 Plan 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 Trustee completed a review of the Plan's DC Section investments with relation to their value for members in June 2023, and considered the Plan year to 31 December 2022. As all member administration costs for the DC Section are met by the Company, the Trustee has only considered the investment charges (the AMC and other expenses that make up the TER), including the investment platform charge, for these funds as part of this review. The overall quality of the service received has also been considered in this assessment rather than fees alone.

"Value" is a not a straightforward concept to quantify and can be open to broad interpretation. The Trustee's value for money assessment examined the current investment management charges relative to the fees for equivalent size mandates, as well as Mercer's Manager Research Ratings and a review of the performance of the Plan's investment funds in the context of their investment objectives. 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 fund available to members.

Where funds offered to members are highly rated by Mercer, are being offered at a competitive fee rate, and are performing satisfactorily over the longer term, the Trustee believes that they can be considered to be offering good value for members.

Based on these criteria, the majority of funds in the fund range of the DC Section are highly rated, available at a fee rate that is below the median for the appropriate Mercer fund universe (accounting for mandate size) and have performed well over the long term.

The Trustee has also considered the value of the default investment option (DDO) over the working lifetime of a member including how the total fee changes with the underlying fund allocations as members move towards retirement.

Accordingly, the Trustee believes the investment options available within the Plan's arrangements represent good value for members. The Trustee believes that the majority of the funds have met their long-term objectives. Overall, the Trustee believes that members are receiving good value for the charges they pay.

The Trustee reviews the Mercer Manager Research Ratings and investment manager performance on a quarterly basis. The Investment Committee also seeks to renegotiate investment manager fees from time to time, where appropriate, to continue to maintain good value for members.

The Trustee has also considered transaction costs as part of the value review. At this time, a meaningful assessment is difficult to undertake due to the lack of industry standards for comparison. Based on advice from its appointed investment advisers, the Trustee believes that transaction costs paid by members appear to be reasonable. The Trustee will continue to work with its advisers to monitor and assess the reasonableness of transaction costs incurred.

The fact that members are not required to contribute to member administration and governance costs (for example advisor fees or the cost of running a Trustee Board) greatly reduces the cost impact and represents a significant element of the value offered to Plan members. This is different from the AVC arrangements, which are separately held in life insurance policies with Standard Life, where member-borne charges do include administration and communication services.

SECURITY OF ASSETS

The Plan undertakes periodic reviews, first undertaken in October 2014, of the financial protections available to members in the unlikely event of losses caused by the insolvency or other failure of one or more companies involved in managing the Plan's investments. Following input from the Trustee's legal and investment advisors, the Trustee is satisfied with the level of protection afforded to Defined Contribution assets.

5. Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

Trustee training is of high importance to the good running of the Plan. The Trustee Directors are required to have the necessary knowledge and understanding of:

- the Trust Deed and Rules of the Plan;
- the Statement of Investment Principles;
- all documents setting out the Trustee's current policies;
- the law relating to pensions and trusts; and
- the principles relating to the funding and investment of occupational pension schemes.

The Trustee Directors have demonstrated that they, both individually and collectively, have the necessary knowledge and understanding of the above matters to enable them to properly exercise their functions as Trustee. Over the Plan Year, the Trustee Board has undertaken the following actions to maintain and improve their knowledge and understanding:

- All Trustee Directors have access to the Trust Deed and Rules, SIP, current policies and all other relevant Plan documents.
- The Trustee Directors were supported by professional advisers, who attended Trustee Board and Committee meetings and provided advice and support. The Trustee received advice from its professional advisers, in particular its legal adviser, prior to key decisions being taken, to ensure decisions were made in line with the Plan Rules and applicable legislation.
- All Trustee Directors have completed The Pensions Regulator's 'Trustee toolkit' training, which ensures all Trustee Directors have an understanding of legal and regulatory matters relating to pensions and trusts.

- The Risk Register is reviewed and updated annually. This demonstrates that the Trustee Directors have the required knowledge of the Pensions Regulator's DC Code and hold relevant knowledge on DC specific internal controls and the regulatory requirements; and
- The Trustee refers to the Trust Deed and Rules, where relevant, on deciding individual member cases.

ONGOING TRAINING

In order to maintain this level of knowledge, the Trustee has procedures and policies in place:

- Trustee Directors undertake additional ongoing training to ensure that they keep up to date with changes in legislation, current issues and the latest developments relating to DC plans;
- All training activities are recorded in a training log; and
- Trustee training is considered and reviewed throughout the year to determine any specific training and development needs. Training sessions are then planned accordingly.

Over the course of the last year, the Trustee Directors have demonstrated their continuous commitment to learning by undertaking training at investment committee or Trustee meetings:

- TCFD training (08/02/2022);
- New transfer requirements from the Pension Scheme Act 2021 (07/03/2022); and
- Alternative assets training (02/08/2022).

In addition, individual Trustee Directors also received training outside of formal meetings through industry events, presentations from investment managers or other sources. The Trustee also received quarterly updates on pension trends and developments by Mercer Limited, the Plan's investment advisor.

TRUSTEE INDUCTION

There is an induction process in place for new Trustee Directors joining the Board, whereby detailed training sessions are run by the Plan's advisors, which cover legal, actuarial, and investment training. These sessions are Plan-specific and cover any knowledge gaps identified on appointment. New Trustee Directors will be required to complete the Pension Regulator's Trustee Toolkit. During the Plan year, Caron Hughes was appointed as a new member-nominated Trustee Director and attended the necessary Trustee induction training sessions. The Trustee induction process and Plan-specific introductory training is reviewed to ensure that it is fit for purpose prior to any new Trustee Director receiving their training.

UTILISING ADVISORS

The Trustee believes that the best run Plans utilise the combined skill and knowledge of both the Trustee and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:

- The Trustee's professional advisors attend their formal meetings;
- The Trustee board contains Trustee Directors with wide ranging skills and experience, including pension experience; and
- The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting.

ASSESSING EFFECTIVENESS

The Trustee Directors understand that having knowledge on the Board and the professional advice available needs to be used effectively in order for the Trustee to act properly. The examples below demonstrate the actions that have been taken to ensure this is the case:

- The Trustee Directors review training requirements throughout the year;
- The Trustee Directors have in place a training plan that is used to plan training ahead of annual events.

Chair's declaration

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above Statement has been produced by the Trustee to the best of my knowledge.

Signature: [redacted]

Name: **Alanna Lee**

Position: **Chair of the Morgan Stanley UK Group Top-Up Pension Plan**

Date: 31 July 2023 (as amended on 26 June 2024)