

CHAIR'S ANNUAL STATEMENT REGARDING DC GOVERNANCE: 1 APRIL 2020 – 31 MARCH 2021

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 Toyota (GB) Retirement Benefits Plan (1979) Money Purchase Section ("the Plan") is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (i.e. Defined Contribution schemes – DC). This statement covers the period 1 April 2020 – 31 March 2021 (the "Plan Year").

Default arrangement

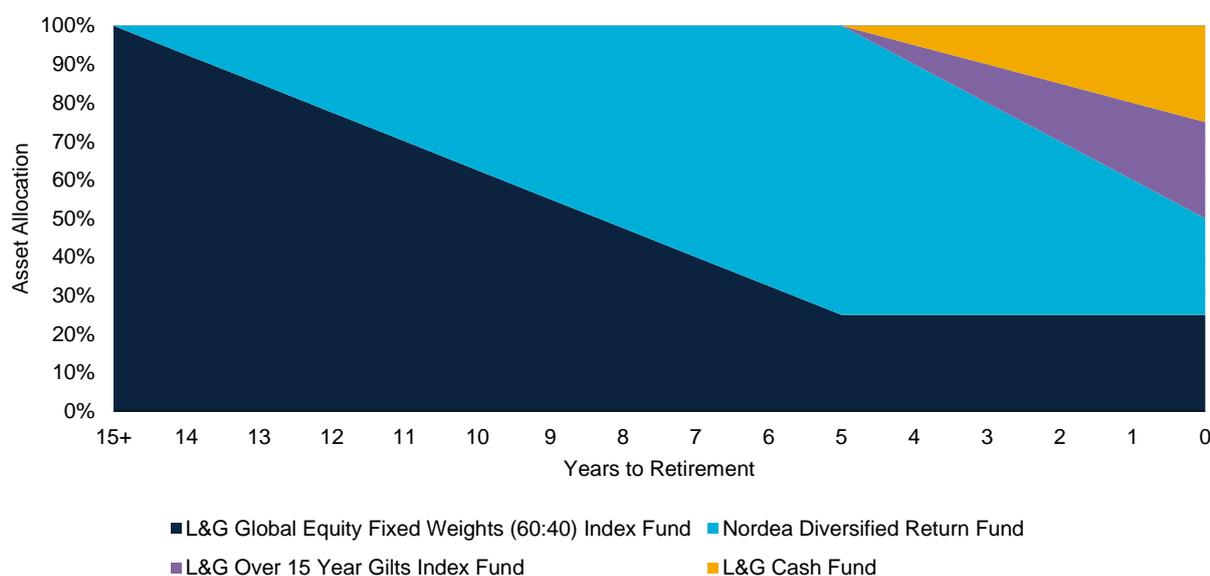
Members of the Plan who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement chosen by the Trustees with the advice of their Investment Consultant. The Plan's assets are held on an investment platform provided by Mobius Life Limited.

At the beginning of the period covered by this statement, changes were made to the default investment strategy. The investment changes resulted from a formal investment strategy review that the Trustees carried out with their advisors (Mercer) after deciding the strategy needed to be updated to allow for the new DC pension freedom regulations.

In determining the investment strategy, the Trustees undertook extensive investigations and received formal written investment advice from their investment consultant. The Trustees explicitly considered the demographics of the Plan as well as the trade-off between risk and expected returns when establishing the balance between different kinds of investments. The advisor's original review was presented to the Trustees at their meeting of 4 December 2018 and was implemented with effect from April 2020.

Under the new strategy, members are fully invested in the L&G Global Equity Fixed Weights (60:40) Index Fund up to 15 years before retirement in order to maximise investment growth potential at a time when members can afford to take on more investment risk. At that point, assets begin to switch into the Nordea Diversified Return Fund, a diversified growth fund (DGF); this Fund is a multi-asset fund which invests in a diversified array of assets such as equity, bonds and cash from around the world. The fund aims to provide greater downside protection compared to equities while still offering reasonable growth prospects and has also been added as a self-select option for members.

Once members are 5 years from retirement, their allocation to equities remains at 25%, while assets are gradually moved out of the DGF and into the L&G Over 15 Year Gilts Index Fund, which invests in long dated government bonds, and the L&G Cash Fund, which invests in cash and short-dated cash-like securities; these switches aim to protect savings further in the years leading up to retirement. When members reach retirement, they will have 25% of their assets allocated to each of the four funds, giving them a diversified portfolio which targets a flexible approach to retirement. The strategy can be illustrated using the following graph:



The new default arrangement is described in further detail in the Plan's Statement of Investment Principles (SIP) dated September 2020, a copy of which is submitted alongside this governance statement. Going forwards, both the default strategy and SIP will be reviewed as a minimum every three years or as soon as any significant developments in investment policy or member demographics take place. The investment strategy is due to be reviewed by December 2021 and the Trustees are currently putting plans in place to do so.

The Trustees continually monitor the performance of the Plan's investments throughout the year and receive quarterly performance reports from Mobius which are reviewed at quarterly Trustee meetings. We are happy with the performance over the period covered by this statement and we have no major concerns regarding the performance of any of the funds used in the Plan.

The Trustees have set up processes to publish relevant information on the default arrangement online at the following URL: <https://www.toyota.co.uk/footer/legal> and will notify members about this in their annual benefit statements.

Processing Plan 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 Plan, transfers between different investments within the Plan and payments to and in respect of members.

These transactions are undertaken on the Trustees' behalf by the Plan administrator, Mercer, and its platform provider Mobius Life Limited. 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 Plan administrator which covers the accuracy and timeliness of all core transactions and receive regular reports to monitor the performance against those service levels. The SLA details the time in which the Trustees expect all transactions relating to the Plan to be completed with an explanation of any cases which are not completed within the agreed timescales. The Plan administration manager is present at every Trustee quarterly meeting where administration experience and any issues over the preceding quarter are discussed in detail.

The processes adopted by the Plan administrator to help meet the SLA and ensure that core financial transactions are processed promptly and accurately include dynamic checklists, a dedicated contribution processing team and four eyes checking of investment and banking transactions and daily monitoring of bank accounts. During the period covered by this statement, 90% of work was completed within the agreed service levels. The Trustees are aware that the standards of the administrator are currently below par and they are having monthly calls with the administration team to discuss and monitor performance. Controls around administration and the processing of core financial transactions are also documented in the Plan's risk register, which is regularly reviewed. No members have been financially disadvantaged as a result of missed SLAs during the Plan Year. The Trustees will continue to challenge Mercer to improve performance against the SLAs. We continue to monitor performance against the SLA on a regular basis and

In addition, the Trustees receive an annual Assurance Report on Internal Controls (AAF 01/06) from Mercer and perform periodic assessments of methods and efficiency of the Plan's administrators and challenge them where needed.

In light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

Charges and transaction costs – default arrangement and additional funds

The law requires the Trustees to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction 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.

In this context, "charges" means (subject to some specific exemptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs. "Transaction costs" are costs incurred as a result of the buying, selling, lending or borrowing of investments.

Transaction costs have been provided by the Plan's investment manager and they are calculated using slippage methodology. That is, the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed at (as typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

Details of the Total Expense Ratios (TERs) payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)
Growth Fund (<i>LGIM Global Equity Fixed Weights (60:40) Index Fund</i>)	0.130	0.003
Nordea Diversified Return Fund	0.690	0.227
Secure Fund (<i>LGIM Over 15 Years Gilts Index Fund</i>)	0.098	0.001
Cash Fund (<i>LGIM Cash Fund</i>)	0.125	-0.002

Source: Mobius Life

This is lower than the maximum TER allowed of 0.75% for default arrangements.

The Trustees also make available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments and attract annual charges and transaction costs as follows:

Fund	TER (%)	Transaction Cost (%)
Growth Fund (<i>LGIM Global Equity Fixed Weights (60:40) Index Fund</i>)	0.130	0.003
Nordea Diversified Return Fund	0.690	0.227
Secure Fund (<i>LGIM Over 15 Years Gilts Index Fund</i>)	0.098	0.001
Cash Fund (<i>LGIM Cash Fund</i>)	0.125	-0.002
LGIM UK Equity Index Fund	0.099	-0.020
LGIM Over 5 Years Index-Linked Gilts Index Fund	0.098	0.025

Source: Mobius Life

We are comfortable that the costs for the default arrangement and self-select funds are reasonable both in terms of the outcomes the funds are targeting and the fees in the wider market applicable to similar investment strategies.

Cumulative effect of charges

Using the charges and transaction cost data provided by the relevant parties and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan 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 a selection of significant funds within the Plan. The funds we are required to illustrate to represent the fund range (with the specific fund within the Plan in brackets) are:

- The fund or strategy with the most members invested (*the Default Lifestyle Strategy*)
- The most expensive fund (*the Royal London Pension Global Managed Fund*)
- The least expensive fund (*LGIM UK Equity Index Fund*)
- The fund with the highest expected return (*LGIM UK Equity Index Fund*)
- The fund with the lowest expected return (*the Cash Fund*)

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

Illustrations for an "Average" member								
	Default Strategy <i>(most popular option)</i>		LGIM UK Equity Index Fund <i>(cheapest and highest expected return fund)</i>		Cash Fund <i>(lowest expected return fund)</i>		Royal London Pension Global Managed Fund (DB AVCs) <i>(most expensive fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£27,801	£27,765	£27,801	£27,773	£26,670	£26,636	£27,709	£27,402
3	£41,885	£41,746	£41,885	£41,779	£37,588	£37,467	£41,522	£40,356
5	£56,827	£56,540	£56,827	£56,608	£48,127	£47,897	£56,066	£53,696
10	£98,285	£97,399	£98,285	£97,609	£72,904	£72,308	£95,885	£88,806
15	£145,954	£142,873	£146,346	£144,906	£95,590	£94,518	£141,185	£126,583
20	£200,158	£191,103	£202,062	£199,464	£116,360	£114,724	£192,720	£167,229
25 (retirement)	£246,081	£231,061	£266,652	£262,401	£135,378	£133,108	£251,350	£210,963
Illustrations for a "Young" member								
	Default Strategy <i>(most popular option)</i>		LGIM UK Equity Index Fund <i>(cheapest and highest expected return fund)</i>		Cash Fund <i>(lowest expected return fund)</i>		Royal London Pension Global Managed Fund (DB AVCs) <i>(most expensive fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£7,468	£7,458	£7,468	£7,460	£7,229	£7,220	£7,448	£7,366
3	£16,591	£16,544	£16,591	£16,555	£15,263	£15,221	£16,480	£16,078
5	£26,271	£26,158	£26,271	£26,185	£23,019	£22,925	£25,990	£25,050
10	£53,128	£52,710	£53,128	£52,809	£41,253	£40,959	£52,026	£48,663
15	£84,262	£83,292	£84,262	£83,522	£57,948	£57,366	£81,647	£74,069
20	£120,356	£118,514	£120,356	£118,950	£73,233	£72,293	£115,344	£101,405
25	£162,198	£159,082	£162,198	£159,819	£87,228	£85,874	£153,680	£130,818
30	£210,115	£203,471	£210,704	£206,963	£100,042	£98,229	£197,293	£162,465
35	£264,269	£249,233	£266,936	£261,345	£111,774	£109,471	£246,910	£196,515
40 (retirement)	£305,704	£282,888	£332,125	£324,078	£122,515	£119,698	£303,356	£233,152

Assumptions	
<p>The above illustrations have been produced for an “average” member and a “young” member of the Plan based on the Plan’s membership data. The “Default Strategy” illustration assumes the member’s asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member’s assets are invested in that fund up to the Plan 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.</p>	
Age	
<ul style="list-style-type: none"> • “Average” member • “Young” member 	<p>40 (<i>the average age of the Plan’s membership</i>)</p> <p>25 (<i>the average age of the youngest 10% of members</i>)</p>
Plan Retirement Age	65
Starting Pot Size	
<ul style="list-style-type: none"> • “Average” member • “Young” member 	<p>£21,065 (<i>the median pot size of the Plan’s membership</i>)</p> <p>£3,104 (<i>the median pot size for the youngest 10% of members</i>)</p>
Starting Salary	
<ul style="list-style-type: none"> • “Average” member • “Young” member 	<p>£43,635 (<i>the median salary of the Plan’s membership</i>)</p> <p>£30,528 (<i>the median salary for the youngest 10% of members</i>)</p>
Inflation	2.5% p.a.
Rate of Salary Growth	2.5% p.a.
Employer annual contributions	8.8% p.a.
Employee annual contributions	5.0% p.a.
Expected future nominal returns on investment:	
<ul style="list-style-type: none"> • Default Strategy <ul style="list-style-type: none"> ○ Growth Fund ○ Secure Fund ○ Cash Fund • Royal London Pension Global Managed Fund 	<p>3.0% above inflation</p> <p>1.75% below inflation</p> <p>1.75% below inflation</p> <p>2.5% above inflation</p>
<p>The member demographic assumption above are based on the member data provided by the Scheme administrators, correct as at 01/04/2020.</p>	

Value for members

The Trustees monitor value for members on an ongoing basis and have a good understanding of the membership demographics of the Plan and what good member outcomes should look like for the Plan’s members in aggregate.

Whether something represents “good value” is not capable of being precisely defined, but for these purposes, the Trustees consider that charges and transaction costs may be viewed as representing “good value” for members where 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.

We understand that value for money does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for money we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of governance, fund management and performance of the funds.

All of the funds used by the Plan are highly rated by our investment advisors as having good prospects of achieving their objectives, and the performance of funds are reviewed quarterly. With this in mind, the Trustees have assessed the fees disclosed above and are satisfied that they have negotiated a good deal for members and that the stated explicit charges for the Plan's funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of Plan with a similar membership profile.

Bearing all this in mind, the Trustees carried out a formal value for members' assessment for the 12-month period covered by this statement. The assessment considered three key areas: Price, Performance and Productivity, covering factors such as investment fees, investment performance and non-investment items such as administration, governance and communications with members. The assessment concluded that overall the Plan was offering good value to members across all three of the areas considered.

The Trustees have set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds publicly online and will notify members about this in their annual benefit statements.

Additional Voluntary Contributions (AVCs)

The Trustees also make available a facility to members to pay in additional contributions to boost Defined Benefit section benefits. The AVC arrangements are reviewed at the same time as the review of the main Plan benefits. The facility is provided via Aviva and Royal London and below are the available funds together with associated fees.

Fund	TER (% p.a.)	Transaction Cost (% p.a.)
Aviva European Equity	0.88%	0.354%
Aviva Global Bond	0.88%	0.228%
Aviva Global Equity	0.88%	0.099%
Aviva Gilt	0.88%	0.094%
Aviva Property	0.88%	0.090%
Aviva UK Equity	0.88%	0.087%
Aviva Mixed Invest (40-85% Shares)	0.88%	0.087%
Aviva With-Profit	0.88%	0.075%
Aviva With-Profit Guaranteed	0.88%	0.075%
Aviva Pacific Equity	0.88%	0.067%
Aviva US Equity	0.88%	0.029%
Aviva Deposit	0.88%	0.000%
Royal London Pension With Profits Fund	1.00%	0.00%
Royal London Pension Fixed Interest Fund	1.00%	-0.28%
Royal London Pension Deposit Fund	1.00%	0.03%*
Royal London Pension Managed Fund	1.00%	0.09%
Royal London Pension Global Managed Fund	1.00%	0.11%*
Royal London Pension European Fund	1.00%	0.01%*
Royal London Pension UK Equity Fund	1.00%	0.08%*

Source: Aviva, Royal London. Transaction costs shown are for the 1 year period to 31 March 2021 except where stated.

* Some Royal London transaction costs are for the 1 year period to 31 December 2020.

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 Plan 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 07 and 13.

The Trustees have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up-to-date with relevant developments. Over the last year, the Trustees have received training as follows:

- 19 May 2020 – Training on alternative investment fund choices for DC members
- 8 October 2020 – Training on the Plan Trust Deed and Rules and DC Governance
- 9 October 2020 – Training on the GDPR Policy

In addition, the Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. The Trustees also include legislative updates and Trustee Knowledge and Understanding on the agenda for each of our meetings. The Trustee board also includes an experienced professional independent trustee who has familiarised themselves with these relevant documents to ensure they have adequate knowledge of the Plan.

Trustees are encouraged to complete the Pension Regulator's Trustee Toolkit and plans are being put in place for all Trustees to complete this in its entirety. All the Trustees are required to familiarise themselves with the Plan's trust deed and rules; the Trustees demonstrated their knowledge of these documents and other Plan policies while reviewing the member newsletter as well as changes to the life assurance benefits available under the Plan. The Trustees demonstrated a working knowledge of the Plan's Statement of Investment Principles and their knowledge and understanding of the relevant principles relating to investments in DC while carrying out a review of the investment choices available to DC members. As a result of this review, the Trustees will be introducing the LGIM World Emerging Markets Equity Index Fund and the LGIM Pre-Retirement Fund to the self-select fund range. The Trustees updated their Statement of Investment Principles in September 2020.

The Trustees demonstrated a working knowledge and understanding of the law relating to pensions and trusts by receiving documents relating to current pensions issues at meetings, where legal issues are also discussed. The Trustees seek legal advice as and when required from their advisors.

Over the year covered by the statement, the Trustees reviewed their process for managing GDPR breaches, reviewed their risk register and had tPR's DC Governance Checklist as a standing item on meeting agendas. The Trustees are therefore satisfied that they have demonstrated a working knowledge of documents setting out the Trustees' current policies.

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 Plan. The Trustees assess their training needs each year and will carry out further training next Plan Year in the areas they feel are necessary.

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.

Given the extent of the training above, 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 Plan'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:

Mr S Jones
Chair of the Trustees

Date: 25 October 2021