

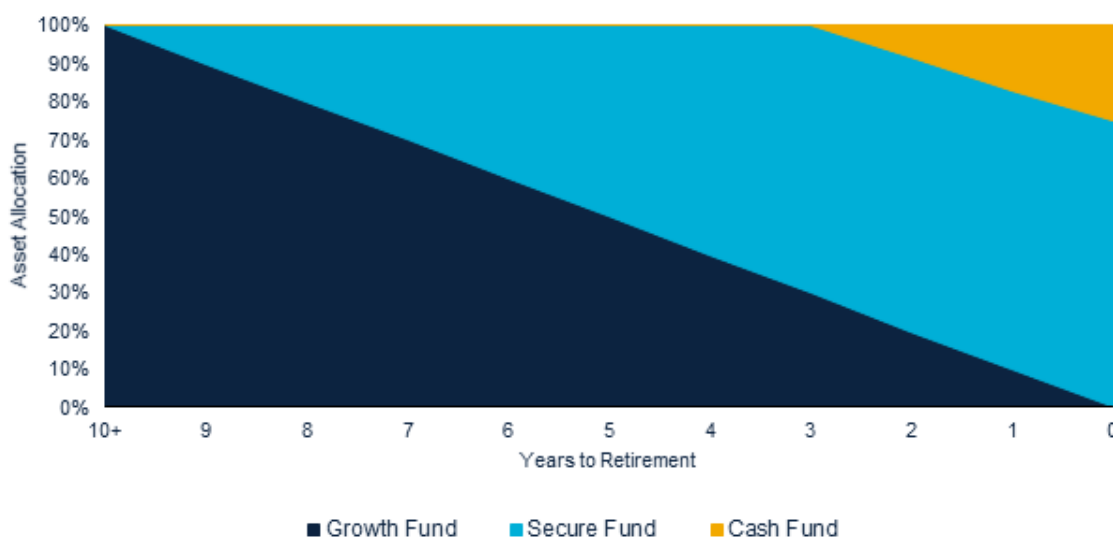
# CHAIR'S ANNUAL STATEMENT REGARDING DC GOVERNANCE: 1 APRIL 2019 – 31 MARCH 2020

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).

## 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 Trustee with the advice of their Investment Consultant. The Plan's assets are held on an investment platform provided by Mobius Life Limited.

For the duration of the period covered by this statement, the Plan's default strategy was a lifestyle with all underlying funds managed by Legal and General (L&G). Up until 10 years from selected retirement age, members' savings were fully invested in the "Growth Fund", which invested entirely in the L&G Global Equity Fixed Weights (60:40) Index Fund. Investments then began to gradually switch into the "Secure Fund", which invested entirely in the L&G Over 15 Year Gilts Index Fund in order to reduce risk as retirement approached. Some assets were then moved into the "Cash Fund", which invested solely in the L&G Cash Fund, in the final three years before retirement. At retirement, members' savings were split so that 75% of assets were in the Secure Fund and 25% were in the Cash Fund. This split was appropriate for members wishing to buy an annuity with their pots (as the Secure Fund was designed to track the price of annuities) and take up to 25% of their DC pension pot as a tax-free lump sum. This strategy can be illustrated using the following graph:



The new default arrangement is described in further detail in the Plan's updated 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 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/help-centre/#/box-ajax/url=%2Ffooter%2Flegal/size=fullscreen> and will notify members about this in their annual benefit statements.

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## 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, JLT Benefit Solutions, 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 processes adopted by the Plan administrator to help meet the SLA include dynamic checklists, a dedicated contribution processing team and four eyes checking of investment and banking transactions. During the period covered by this statement there were no issues relating to the processing of Plan transactions. We continue to monitor performance against the SLA on a regular basis and receive an annual Assurance Report on Internal Controls (AAF 01/06) from JLT.

We will also perform periodic assessments of methods and efficiency of the Plan's administrators and will 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	0.001
Secure Fund ( <i>LGIM Over 15 Years Gilts Index Fund</i> )	0.098	0.047
Cash Fund ( <i>LGIM Cash Fund</i> )	0.125	0.003

Source: Mobius Life

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

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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	0.001
Secure Fund ( <i>LGIM Over 15 Years Gilts Index Fund</i> )	0.098	0.047
Cash Fund ( <i>LGIM Cash Fund</i> )	0.125	0.003
LGIM UK Equity Index Fund	0.099	-0.019
LGIM Over 5 Years Index-Linked Gilts Index Fund	0.098	0.123

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 Deposit Fund*)
- The least expensive fund (*the Secure Fund*)
- The fund with the highest expected return (*the Growth Fund*)
- The fund with the lowest expected return (*the Royal London Pension Deposit 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.

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Illustrations for an "Average" member								
Years from now	Default Strategy (most popular option)		Growth Fund (highest expected return fund)		Secure Fund (cheapest fund)		Royal London Pension Deposit Fund (DB AVCs) (most expensive and lowest expected return fund)	
	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	£28,039	£28,002	£28,039	£28,002	£26,853	£26,821	£26,824	£26,556
3	£42,835	£42,692	£42,835	£42,692	£38,259	£38,145	£38,154	£37,197
5	£58,838	£58,539	£58,838	£58,539	£49,443	£49,222	£49,236	£47,398
10	£104,794	£103,836	£104,794	£103,836	£76,456	£75,869	£75,891	£71,093
15	£160,706	£158,589	£160,706	£158,589	£102,170	£101,085	£101,112	£92,414
20	£218,412	£214,664	£228,733	£224,773	£126,648	£124,949	£124,976	£111,599
25	£254,166	£248,876	£311,497	£304,774	£149,949	£147,532	£147,556	£128,863
26 (retirement)	£257,594	£252,053	£330,088	£322,676	£154,473	£151,901	£151,924	£132,102
Illustrations for a "Young" member								
Years from now	Default Strategy (most popular option)		Growth Fund (highest expected return fund)		Secure Fund (cheapest fund)		Royal London Pension Deposit Fund (DB AVCs) (most expensive and lowest expected return fund)	
	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	£7,518	£7,508	£7,518	£7,508	£7,267	£7,259	£7,261	£7,189
3	£16,882	£16,833	£16,882	£16,833	£15,472	£15,433	£15,440	£15,104
5	£27,010	£26,893	£27,010	£26,893	£23,517	£23,428	£23,439	£22,692
10	£56,096	£55,648	£56,096	£55,648	£42,948	£42,661	£42,680	£40,319
15	£91,482	£90,406	£91,482	£90,406	£61,446	£60,862	£60,885	£56,179
20	£134,536	£132,420	£134,536	£132,420	£79,053	£78,086	£78,111	£70,451
25	£186,917	£183,206	£186,917	£183,206	£95,814	£94,387	£94,411	£83,292
30	£250,647	£244,594	£250,647	£244,594	£111,770	£109,812	£109,833	£94,848
35	£313,044	£304,136	£328,184	£318,797	£126,958	£124,410	£124,425	£105,246
40	£342,147	£331,041	£422,519	£408,492	£141,416	£138,224	£138,233	£114,602
41 (retirement)	£342,886	£331,493	£443,710	£428,563	£144,223	£140,897	£140,904	£116,358

*It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" and "Younger" members' pots at retirement would be £125,727 and £108,681 respectively in today's money.*

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<b>Assumptions</b>	
<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> <p>You will note that the total fee figure is lower than the difference between the pot size before and after fees. The total fee reflects what has actually been taken from the pot to pay for the management of assets and other expenses, whereas the difference between before and after fee pot values reflects the effect of compounding.</p>	
Age	
<ul style="list-style-type: none"> <li>• “Average” member</li> <li>• “Young” member</li> </ul>	<p>39 <i>(the average age of the Plan’s membership)</i></p> <p>24 <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"> <li>• “Average” member</li> <li>• “Young” member</li> </ul>	<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"> <li>• “Average” member</li> <li>• “Young” member</li> </ul>	<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"> <li>• Default Strategy <ul style="list-style-type: none"> <li>○ Growth Fund</li> <li>○ Secure Fund</li> <li>○ Cash Fund</li> </ul> </li> <li>• Royal London Pension Deposit Fund</li> </ul>	<p>4.0% above inflation</p> <p>1.0% below inflation</p> <p>1.1% below inflation</p> <p>1.1% below inflation</p>

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## 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 generally 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 Trustee carried out a formal value for member's 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 Pensions Mixed Investment (40-85% Shares)	0.88%	0.0394
Aviva With Profits	0.88%	0.370
Aviva With Profits Guaranteed	0.88%	0.370
Royal London Pension Fixed Interest Fund	1.00%	-0.28
Royal London Pension Deposit Fund	1.00%	-0.01
Royal London Pension Managed Fund	1.00%	0.09
Royal London Pension Balanced Fund	1.00%	0.08
Royal London Pension UK Equity Fund	1.00%	0.04
Royal London Pension With Profits Fund	1.00%	0.00

Source: Aviva, Royal London

# CHAIR'S ANNUAL STATEMENT REGARDING DC GOVERNANCE: 1 APRIL 2019 – 31 MARCH 2020 (CONTINUED)

## **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 on GDPR and DC investment strategy. 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 members newsletters and through their involvement with the redrafting of the rules; the Consolidated Trust Deed and Rules were completed on 30 January 2020. 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 their review of the Plan's default investment strategy; the SIP was updated in September 2019.

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, updated their Internal Dispute Resolution Procedures policy 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.

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: 24<sup>th</sup> September 2020