

AT&T ISTELE Pension Plan

Trustee's Report (continued)

Defined Contribution Governance and Charges Statement

Annual Chair's Statement for the AT&T ISTELE Pension Plan (the Plan)

The Occupational Pension Scheme (Charges and Governance) Regulations 2015 (the Regulations) require the Trustee to prepare an annual statement regarding governance of defined contribution (DC) benefits, which must be included in the annual report, and published online.

This Statement is in relation to the DC benefits held in the Plan which are the AVC arrangements, transferred in DC funds and redundancy enhancement funds. It covers the period from 1 April 2023 to 31 March 2024 and is signed on behalf of the Trustee by the Chair.

This Statement covers governance and charge disclosures in relation to the following:

- The Default Arrangement
- Net investment returns
- Member borne charges and transaction costs, and illustrations to show their effect,
- Value for Members assessment,
- Processing of core financial transactions, and
- Trustee knowledge and understanding.

The Default Arrangement

The Plan has never been used as a Qualifying Scheme for auto-enrolment purposes and has not received any contributions since the Regulations came into force in April 2015. It therefore does not have a default arrangement as set out in the Regulations. However, funds previously invested in the Equitable Life With Profits Fund were automatically moved to the Utmost Life and Pensions 'Investing By Age' Strategy when the Equitable Life With Profits Fund closed in January 2020. The Investing By Age Strategy may therefore be considered a default arrangement and we have therefore treated it as such when writing this Statement.

For the first time this year, the Trustee is required to disclose the full asset allocation of investments for the default arrangement. The table below shows the percentage of assets allocated to specified asset classes in the Utmost Life and Pensions 'Investing By Age' Strategy as at 31 March 2024.

Asset class	Asset allocation (%) as at 31 March 2024 at age:			
	25	45	55	60 (NRA)
Cash	4.8	4.8	4.8	4.9
Bonds	27.7	27.7	27.7	39.7
Listed equities	66.8	66.8	66.8	42.6
Private equity	0.0	0.0	0.0	0.0
Infrastructure	0.0	0.0	0.0	0.0
Property	0.0	0.0	0.0	0.0
Private debt	0.0	0.0	0.0	0.0
Other	0.7	0.7	0.7	12.8

Where a fee is calculated by reference to the returns from investments held by the Plan and is not calculated by reference to the value of the members' rights under the Plan, the Trustee must state the amount of any such performance-based fees in relation to the default arrangement. During this reporting period, there were no such fees levied on the default arrangement.

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Defined Contribution Governance and Charges Statement (continued)

The Default Arrangement (continued)

The Trustee is responsible for the Plan's investment governance, which includes setting and monitoring the investment strategy for the default arrangement. Details of the Trustee's policies and objectives for the Plan's investment strategy are set out in a document called the 'Statement of Investment Principles'. The Plan's Statement of Investment Principles is attached to this Statement.

The Trustee carried out an investment review of the DC benefits, including the Investing by Age strategy, on 11 September 2023. This review included the following:

- a review of investment performance over periods to 1 April 2023,
- a review of the quality and suitability of investment options, taking into account the format in which members are likely to access these benefits and the Trustee's aims and objectives set out in the Plan's Statement of Investment Principles.

The investment review concluded that the investment options available to members remained appropriate. The Trustee therefore made no changes to the investment strategy as a result of the review.

A further review was carried out after the period to which this Statement relates, on 16 September 2024. The conclusions of this will be reported in next year's Statement.

Net Investment Returns

The Trustee is required to report net investment returns for all funds members of the Plan were invested in during the period covered by this Statement. The net investment return is the return on a fund after all member-borne transaction costs and charges.

The net investment returns set out below have been prepared having regard to statutory guidance. The guidance states that, where the net returns vary with age (i.e. the Zurich lifestyle strategies and the Utmost Investing by Age strategy), they should be shown for members aged 25, 45 and 55 at the start of the investment reporting period. The age-related returns shown for the Zurich lifestyle strategies are based upon a selected retirement age of 60.

Strategy	Investment return to 31 March 2024	
	1 year (%)	5 years (% p.a.)
Utmost Life and Pensions		
Investing by Age strategy (member aged 25 or 45 at the start of the investment reporting period)	10.8	Not available
Investing by Age strategy (member aged 55 at the start of the investment reporting period)	10.8	Not available
Zurich		
Pre-2009 lifestyle strategy (member aged 25 or 45 at the start of the investment reporting period)	16.8	8.3
Pre-2009 lifestyle strategy (member aged 55 at the start of the investment reporting period)	16.8	4.9
Post-2009 lifestyle strategy (member aged 25, 45 at the start of the investment reporting period)	12.6	7.1
Post-2009 lifestyle strategy (member aged 55 at the start of the investment reporting period)	12.6	3.8

Source: Financial Express Analytics and Zurich

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Net Investment Returns (continued)

Fund	Investment return to 31 March 2024	
	1 year (%)	5 years (% p.a.)
American	25.3	14.7
Aquila 60/40 Global Equity Index	12.6	7.1
Aquila UK Equity Index	6.8	4.1
Asia	-1.6	1.8
BlackRock ACS Global Equity Tracker	12.6	7.1
Equity Managed	16.8	8.3
European	13.0	11.6
Global Select	29.2	12.4
Henderson Global Sustainable Equity	19.3	13.5
Long Dated Gilt	-5.9	-9.2
Managed	10.1	5.6
Property	3.3	2.8
Secure	4.1	0.8
UK Equity	7.7	4.4
With Profits	3.5	2.6

Source: Financial Express Analytics and Zurich

Notes

It is important to note that past performance is no guide to future performance.

For the Utmost Life and Pensions Investing by Age strategy, 5-year returns are not available as this strategy was launched on 1 January 2020.

For the Zurich With Profits Fund, the net investment returns shown above are the bonus rates declared on the Fund over the calendar year ending in the relevant period. In practice, we would expect a final bonus to increase returns to close to those on the underlying assets in the With Profits Fund over the period held (after all costs of running the Fund, including the costs of any guarantees are taken into account). However, these amounts are unknown in advance and are not guaranteed. Furthermore, a market value reduction which can reduce the return delivered to investors, may be applied on exit from the With Profits Fund at any time other than at maturity date, or in the event of death before retirement.

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Member-Borne Charges and Transaction Costs

The Trustee is required to report on the charges and transaction costs Plan members pay and assess the extent to which these charges and transaction costs represent good value for members. Where information about member charges and costs is not available, the Trustee has to make this clear, together with an explanation of what steps are being taken to obtain the missing information.

The costs and charges comprise:

- explicit charges, such as the Fund Management Charge (FMC), the Annual Management Charge (AMC) and additional expenses that are disclosed by the fund managers as part of the Total Expense Ratio (TER).
- transaction costs (TC) i.e. the costs of buying and selling investments in each fund, which are not explicit but impact the investment returns on funds.

The Trustee requested the TER and TC on the DC and AVC funds held by members over the 12-month period to 31 March 2024 from the providers. All TERs shown in the table below are to 31 March 2024, as are the TC on the Utmost funds. The TC for the Zurich funds are for the 12 months to 31 December 2023 and these are the latest available at the time of writing this Statement. The TC are reported for 100% of each fund's underlying assets except the Zurich Equity Managed, Managed and Secure Funds for which the TC are reported for 99.8% of the underlying fund.

Funds available through the Zurich arrangements which had no members invested during this reporting period are not shown in the table below.

Fund name	TER (% p.a.)	TCs (% p.a.)	Total cost (% p.a.)
Utmost Life and Pensions			
Investing by Age strategy	0.50 – 0.75 ¹	0.02 – 0.24 ¹	0.52 – 0.99 ¹
Zurich			
Pre-2009 lifestyle strategy	0.97 – 0.98 ¹	0.01 – 0.31 ¹	0.98 – 1.29 ¹
Post-2009 lifestyle strategy	0.96 – 0.97 ¹	0.00 – 0.01 ¹	0.96 – 0.98 ¹
American	0.98	0.28	1.26
Aquila 60/40 Global Equity Index	0.96	0.00	0.96
Aquila UK Equity Index	0.89	0.05	0.94
Asia	0.99	0.55	1.54
BlackRock ACS Global Equity Tracker	0.96	0.0	0.96
Equity Managed	0.98	0.31	1.29
European	0.95	0.86	1.81
Global Select	0.88	0.29	1.17
Henderson Global Sustainable Equity	1.73	0.06	1.79
Long Dated Gilt	1.04	0.01	1.05
Managed	0.96	0.20	1.16
Property	1.08	0.15	1.23
Secure	0.97	0.01	0.98
UK Equity	0.97	0.27	1.24
With Profits	0.99	0.06	1.05

¹ Depending upon members' age (Utmost Life and Pensions) or term to retirement (Zurich)

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Defined Contribution Governance and Charges Statement (continued)

Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on the value of their DC or AVC fund at retirement (as a “pounds and pence figure”). The Regulations allow the Trustee to exercise its discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Plan's membership.

The Trustee has taken account of the statutory guidance when preparing these illustrations.

In accordance with the statutory guidance, illustrations have been provided to demonstrate the effect of costs and charges over the longest term to retirement (i.e. for the youngest member of the Plan) for the default arrangement (where relevant) and for the funds with the highest and lowest charges over this reporting period.

The illustrations are based on a number of assumptions about the future which are set out under 'notes and assumptions' below. Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Plan, they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

DC funds and redundancy enhancement funds invested with Zurich

Representative member:

Member's age	Starting fund value	Retirement age	Investment fund illustrated
49	£9,700	60	Henderson Global Sustainable Equity Fund (highest charges) Aquila UK Equity Index Fund (lowest charges)

Illustration of costs and charges: the effect of costs and charges for the representative member are as follows:

Member age	Henderson Global Sustainable Equity Fund (highest charges)			Aquila UK Equity Index Fund (lowest charges)		
	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges
50	£9,940	£9,770	£170	£9,940	£9,850	£90
55	£11,210	£10,100	£1,110	£11,210	£10,630	£580
60	£12,640	£10,450	£2,190	£12,640	£11,480	£1,160

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Defined Contribution Governance and Charges Statement (continued)

Illustrations to show the cumulative effect of costs and charges (continued)

AVC funds invested with Zurich

Representative member:

Member age	Starting fund value	Retirement age	Investment fund illustrated
50	£18,400	60	Henderson Global Sustainable Equity (highest charges) Aquila UK Equity Index Fund (lowest charges)

Illustration of costs and charges: the effect of costs and charges for the representative member are as follows:

Member age	Henderson Global Sustainable Equity Fund (highest charges)			Aquila UK Equity Index Fund (lowest charges)		
	Before charges	After charges	Impact of charges	Before charges	After charges	Impact of charges
55	£20,760	£19,030	£1,730	£20,760	£19,870	£890
60	£23,410	£19,690	£3,720	£23,410	£21,450	£1,960

AVC funds – Utmost Life and Pensions

Representative member:

Member age	Starting fund value	Retirement age	Investment fund illustrated
47	£2,500	60	Investing by Age strategy

Illustration of costs and charges: the effect of costs and charges for the representative member are as follows:

Member age	Investing by Age strategy		
	Before charges	After charges	Impact of charges
50	£2,610	£2,530	£80
55	£2,810	£2,590	£220
60	£2,990	£2,630	£360

Notes and assumptions:

Fund values shown are estimates and are not guaranteed.

All illustrations assume no further contributions are paid, as the Plan is closed to future contributions.

Projected pension fund values are shown in today's terms and so do not need to be reduced further for the effects of inflation. Inflation is assumed to be 2.5% p.a.

The transaction costs have been averaged over a 5-year period (where available), in line with statutory guidance to reduce the level of volatility, and a floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

The representative members for the DC funds and redundancy enhancement funds are based upon the Plan's membership as at 31 March 2024, those for the Zurich AVC arrangements are based upon the Plan's membership as at 12 September 2024 and those for the Utmost Life and Pensions AVC arrangements are based upon the Plan's membership as at 31 March 2023.

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Defined Contribution Governance and Charges Statement (continued)

Illustrations to show the cumulative effect of costs and charges (continued)

For the Utmost Life and Pensions Investing by Age Strategy, the projections take into account the changing proportion of the members' fund invested in the underlying funds.

The projected growth rates used are consistent with the growth rates providers use in members' annual benefit statements. These are determined by the statutory guidance for producing money purchase illustrations and which are now based on the historic volatility of the fund, not the expected future returns.

The projected annual growth rates, and total costs and charges for each fund are:

Investment strategy / fund	Assumed growth rate (before charges)	Total costs and charges
Zurich Henderson Global Sustainable Equity Fund	5.0% p.a.	1.80%
Zurich Aquila UK Equity Index Fund	5.0% p.a.	0.92%
Utmost Life and Pensions Investing by Age Strategy	3.0 – 2.0% p.a. ²	1.03 – 1.04% ²

² Depending upon age (charges shown take account of the asset allocation up to age 60)

Value for Members Assessment

The Trustee is required to make an assessment of costs and charges borne by members and the extent to which those charges represent good Value for Members, in the context of the services provided by the Plan to those members.

There is no legal definition of "good value" or the process of determining this for members. For this year's assessment, as well as using the findings of the annual review of the DC and AVC arrangements carried out by its advisers, Aon Investments Limited, the Trustee considered the formal assessment of Value for Members carried out by Aon Investments Limited in September 2024, to assess whether DC and AVC members receive good value from the Plan, relative to the costs and charges they pay.

The Trustee reviews all costs and charges borne by members annually, as part of the work to prepare this Statement. The costs and charges have been identified as the Total Expense Ratio (TER) and Transaction Costs (TC), details of which have been set out in previous sections of this Statement.

The Trustee has considered the benefits of Plan membership for members with DC benefits under the following four categories: governance, investments, administration and member experience.

The Trustee's advisers most recent review concluded that:

- the explicit charges members pay from their unit-linked DC and AVC funds are broadly in line with charges on other legacy arrangements, though they are at the top end of the range, and higher than current market rates.
- the charges on the Zurich With Profits Fund are in line with charges disclosed by the providers of other similar With Profits funds.

Although the charges members pay are higher than current market rates, the Trustee's advisers believe there is little practicable scope to reduce charges, as both providers are closed to new business and the number of members and assets invested in the DC and AVC arrangements mean that it would not be commercially viable for another provider to take on these funds within the Plan. The Trustee could consider moving these funds to another, larger arrangement however this would break the link with members' defined benefits in the Plan.

There is no publicly available benchmarking data for transaction costs therefore it is difficult to carry out a market comparison to provide comfort around the reasonableness of the transaction costs disclosed by the Trustee's DC and AVC fund managers. Importantly, investment returns on funds include the impact of transaction costs. The investment monitoring carried out by the Trustee has concluded that investment returns have been in line with expectations over this reporting period.

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Defined Contribution Governance and Charges Statement (continued)

Value for Members Assessment (continued)

Plan governance: The Trustee has a suitable governance process in place which includes the formal review of the DC and AVC arrangements (covering provider financial strength, suitability and quality of investment options and standards of administration) on an annual basis. The DC benefits are also included in the Trustee's wider governance of the Plan.

Investments: The Plan offers two bespoke lifestyle strategies through the Zurich policy, which have been designed by the Trustee's advisers taking account of the format in which members are likely to access these funds. The Zurich policy also provides access to a property fund, a responsible investment option and a With Profits Fund. The most recent annual review of the arrangements concluded the investment options available are likely to be able to meet member's investment needs and objectives.

The Utmost Life and Pensions policy also offers a lifestyle-type arrangement ("Investing by Age"), which reduces risk from age 55. Equitable Life projected that this strategy was capable of delivering the investment returns members needed to ensure they were not worse off as a result of the closure of the Equitable Life With Profits Fund and the Trustee's advisers take this objective into account when reviewing the Utmost Life and Pensions Investing by Age strategy. Members can also choose to invest in a range of self-select funds that provide access to a range of investment strategies and fund management styles.

Administration: The Plan's administrator, Capita, report on administration tasks relating to DC benefits in its quarterly reports to the Trustee. These reports also give details of any complaints received from members.

The annual review of the DC and AVC arrangements includes the Trustee advisers' wider experience of the two providers' standards of administration, as well as the functionality of their administration systems. The latest review concluded that there were no major concerns over Zurich and Utmost Life and Pension's standards of administration.

Member experience: Members can contact Capita if they require information or have any queries regarding their DC benefits.

Members with Zurich policies can register to view their policy and carry out fund switches online. Furthermore, the Trustee wrote to members to encourage them to register for online access to their policy following Zurich withdrawing online access for the Plan administrator, Capita.

Utmost Life and Pensions does not provide online access for members, but Capita is able to support members if they wish to obtain a valuation or switch funds.

Members have the option to use their DC benefits towards their pension commencement lump sum, rather than commuting their defined benefit pension, and the Trustee considers this to be a potentially valuable benefit.

Based upon the factors described above, the Trustee has concluded that the DC and AVC arrangements have provided value to members over the period covered by this Statement.

Defined Contribution Governance and Charges Statement (continued)

Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions relating to members' DC benefits are processed promptly and accurately. As the Plan is closed to future accrual, core financial transactions consist of payments to members or their beneficiaries, fund switches within the Plan and transfers out of the Plan.

Core financial transactions are undertaken on behalf of the Trustee by Capita, the Plan administrator. The Trustee has a service level agreement (SLA) in place with Capita which covers the administration of all Plan benefits, not just the DC and AVC funds. To enable the Trustee to monitor the processing of core financial transactions, Capita provides quarterly administration reports which cover the key aspects of the Plan's administration including a payment schedule, an investment schedule and Capita's performance against the SLA.

These reports are reviewed by the Trustee at each meeting. The SLA in place with Capita also covers general enquiries and member complaints. Capita has confirmed that there are processes in place for each core financial transaction it carries out to ensure that all transactions are processed accurately and in a timely manner.

The Trustee does not have an SLA in place with the DC benefit providers, Utmost Life and Pensions and Zurich, though both providers have target timescales for processing core financial transactions. Capita does not formally report on any delays to core financial transactions by Utmost Life and Pensions or Zurich, though it does consider the impact of delays by these providers on its own service levels and therefore Capita would be expected to raise any issues with the Trustee.

Capita, Utmost Life and Pensions and Zurich have internal controls in place to monitor their administration processes and procedures. The Trustee reviews Capita's controls as part of the Plan's risk register.

The Trustee has monitored core financial transactions for the DC benefits over the period covered by this Statement, in so far as the reporting provided by Capita allows it to do so. Capita's SLA performance for both the defined benefit and DC sections of the Plan was 91% for all reported tasks and for core financial transactions was 74%. Capita has confirmed that the majority of tasks not completed within the SLA were completed within the next 5 working days. Where core financial transactions have been processed outside of the timescales specified in the SLA, the Trustee is satisfied with Capita's explanation of the reasons for this and believes the processes and controls in place to ensure core financial transactions are processed accurately and promptly remain suitable.

The Trustee is therefore satisfied that over the period:

- the administrator was operating appropriate procedures, checks and controls and operating within the service levels agree;
- there have been no material administration errors in relation to processing core financial transactions, and
- all core financial transactions have been processed accurately and the majority have been processed promptly during the period covered by this Statement.

Defined Contribution Governance and Charges Statement (continued)

Trustee's Knowledge and Understanding (TKU)

Pension legislation sets out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's General Code of Practice.

The comments in this section relate to the Plan as a whole and not solely the DC and AVC arrangements.

The Plan is managed by a Trustee Board, which is made up of eight Trustee Directors. There are currently five Company appointed Trustee Directors and three Member-Nominated Trustee Directors. The composition of the Trustee Board demonstrates diversification of skills and breadth and depth of pension knowledge.

The Trustee has a formal induction policy for new Trustee Directors, which is reviewed as part of the Business Plan. There were no new Trustee Directors appointed during this reporting period.

As well as being provided with key documentation for the Plan when they are appointed, Trustee Directors have access to Plan documentation via Aon Pensions Organiser (a secure online portal).

The Trustee receives advice from its professional advisers regularly throughout the year to ensure that it runs the Plan and exercises its functions properly.

During the period covered by this Statement, the Trustee can evidence the TKU requirements have been met by the following:

- Maintenance of training logs for each individual Trustee Director.
- Assessment of training needs on an ongoing basis with advisers appointed to the Plan raising training items or providing training when required; and considering whether any gaps exist in individual Trustee Director's knowledge and understanding.
- The Chair reviewing training needs on an annual basis, by conducting interviews with each individual Trustee Director.
- Attending two half-days of Trustee training on 12 October 2023 and 1 February 2024, which covered the following topics: cyber security, reporting breaches of law to TPR, equity, diversity and inclusion (EDI), the General Code of Practice, GMP overview, GMP equalisation, liability driven investments and responsible investing.
- Receiving general legal updates at each Trustee meeting.
- Attending relevant conferences throughout the year, such as the Aon Pension Conference.

In exercising its functions, the Trustee Board has required knowledge of key Plan documents such as the Trust Deed & Rules, Trustee Report & Accounts, Statement of Investment Principles and the Trustee policies and procedures. Some of the activities that support this Statement are set out below:

- Reviewing administration reports from Capita;
- Reviewing the performance of the investment funds held by members on an annual basis;
- Holding regular Trustee meetings with providers and advisers who provided reporting and specialist advice before taking relevant decisions as required. The minutes of each Trustee meeting documented the information shared and specialist advice given.

Taking into account the knowledge and experience of the Trustee Directors and the advice available to them (both in writing and whilst attending meetings), the Trustee believes that it is well placed to exercise its functions as Trustee of the Plan properly and effectively.

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Defined Contribution Governance and Charges Statement (continued)

Trustee's Knowledge and Understanding (TKU) (continued)

The Trustee Directors together believe they have sufficient knowledge and understanding of the law relating to pensions and trusts and the relevant principles relating to the funding and investment of occupational schemes. The Trustee Directors are also conversant with and have access to copies of the Plan's governing documentation, including the Trust Deed & Rules, Plan policies and the Statement of Investment Principles.

Signed on behalf of the Trustee of the AT&T ISTEEL Pension Plan

Name: Judith Horton, Chair of Trustee

Date: Oct 23, 2024