

Avon Cosmetics Pension Plan

THE CHAIR'S ANNUAL GOVERNANCE STATEMENT

This statement has been prepared by the Trustees of the Avon Cosmetics Pension Plan (“the Plan”) in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how, in relation to the Plan’s New Money Purchase Section (the “**NMP Section**”), the Trustees have complied with the statutory governance standards that cover the following:

- The default investment strategy and the alternative investment options available to members,
- The charges and transaction costs incurred by members, including their impact on members’ benefits and the extent to which they represent good value,
- The net investment returns achieved by the default investment strategy and the alternative investment options available to members,
- The monitoring of core financial transactions, and
- How the Trustees ensure they have enough knowledge so that the NMP Section is well run.

The NMP Section is administered on behalf of the Trustees by Scottish Widows (“**SW**”) together with the Company’s Pensions Department.

In addition, where relevant, the statement includes information on the legacy Additional Voluntary Contribution (“**AVC**”) arrangement with Utmost Life & Pensions (“**Utmost**”) (although during 2021, the remaining AVCs with Utmost were transferred to the NMP Section and consequently, on 31 December 2021, no AVCs were invested with Utmost) and the Money Purchase Plan (the “**MPP**”) with Prudential (collectively referred to as the “**legacy arrangements**”).

This statement covers the Plan year from 1 January 2021 to 31 December 2021.

INVESTMENT STRATEGY AND THE DEFAULT OPTION

Statement of Investment Principles

The Trustees are responsible for the NMP Section’s investment governance, which includes setting and monitoring the investment strategy for the SW Interim Passive Lifestyle (Avon), the default investment strategy. The Plan’s overall investment strategy is set out in the Trustees’ Statement of Investment Principles (“**SIP**”) which governs their decisions about investments, prepared in accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005. A copy of the Trustees’ most recent SIP (dated September 2020) is attached to this statement (see Appendix II) and is also available online at www.avon.uk.com/pages/pensions.

Included within the full SIP is the Trustees’ SIP for the default investment strategy that covers its aims and objectives together with the reasons why the Trustees feel it is appropriate for those members who do not actively make their own investment choice.

The Default Option

The NMP Section is used as a Qualifying Scheme for auto-enrolment and members that do not make an explicit choice on how to invest their pension savings are automatically invested in the SW Passive Interim Lifestyle (Avon).

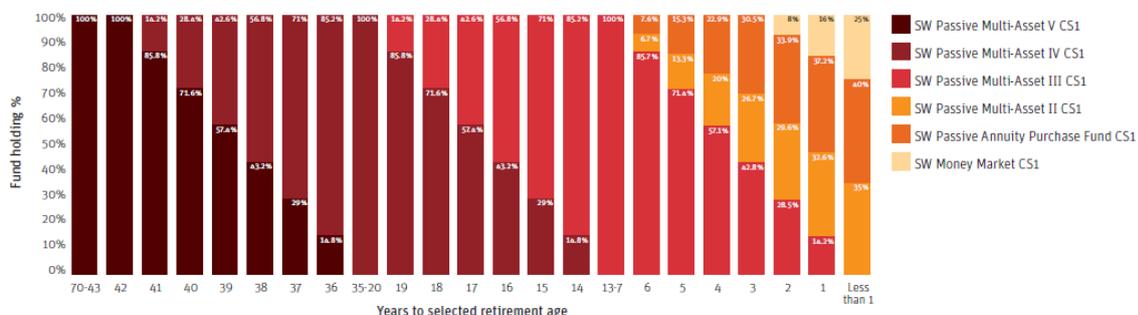
The SW Passive Interim Lifestyle (Avon) is managed by Scottish Widows to provide a suitable investment solution from the point at which a member joins the NMP Section until the point at which the member is sufficiently comfortable to make an investment decision – in particular once a member has a view regarding how they might wish to manage their income in retirement. In terms of asset allocation, the SW Passive Interim Lifestyle (Avon) is designed to generate growth over the long term with reducing levels of risk as members approach retirement. This is achieved by a member’s pension savings being

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gradually and automatically moved into investment funds that are less likely to experience changes in value from 6 years before retirement. The table below shows the investment funds and the switching profile of the SW Passive Interim Lifestyle (Avon).

The Trustees currently consider this approach to be in the best interest of those members who do not actively make their own investment choice and are undecided about their choice of retirement benefits.

SCOTTISH WIDOWS PASSIVE INTERIM LIFESTYLE (AVON)



OBJECTIVE

This option is managed by Scottish Widows to provide, in its opinion, a suitable investment solution from the point at which you join until the point at which you are sufficiently comfortable to make an investment decision – in particular once you have a view regarding how you might wish to manage income in retirement.

Review of the default investment strategy

Strategic review

The Trustees undertake a strategic review of the default investment strategy and the other investment options every three years to ensure it remains appropriate for members, although an earlier review will be undertaken if there are any significant changes in investment policy or membership.

The last strategic review was completed in 2019, and consequently no strategic review of the default investment strategy was undertaken during the year ending 31 December 2021. However, the Trustees (with the support of Willis Towers Watson, their advisers) commenced the latest strategic review of the default investment strategy in March 2022. This included looking at the membership to understand whether the default investment strategy remains appropriate for the different groups of members along with its performance and structure. Members will be told about the outcome of this review later in 2022 and information will also be provided in next year’s Chair’s Statement.

Performance review

In addition to the above, the Trustees monitor the performance of the default investment strategy as part of each Trustee meeting (see the next section on ‘net investment returns’ for more information). For the year ending 31 December 2021, the Trustees concluded that the SW Passive Interim Lifestyle (Avon) performed broadly as expected and was consistent with its aims and objectives stated in the Trustees’ SIP.

The legacy arrangements

Neither the AVCs with Utmost nor the MPP with Prudential have default investment strategies.

NET INVESTMENT RETURNS

The Trustees monitor the performance of the investment funds underlying the default investment strategy, as well as the performance of the alternative lifestyle options and investment funds available to members, on a quarterly basis. These reviews include an analysis of fund performance against each fund’s benchmark and member activity to check that the risk and return levels meet expectations.

In the tables below are shown the net investment returns for the SW Passive Interim Lifestyle (Avon) as well as the alternative lifestyle options and investment funds that members are (or were) able to

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select and in which members were invested during the year to 31 December 2021. This information has been provided by Scottish Widows.

When preparing this information, the Trustees have taken account of the guidance issued by the Department for Work and Pensions (DWP) titled 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns' dated October 2021.

The NMP Section

Net investment returns for the default investment strategy

For the SW Passive Interim Lifestyle (Avon), because the net investment returns are different for members of different ages, the table below shows the annual net investments returns for members aged 25, 45 and 55 at the start of one year and five-year periods.

The SW Passive Interim Lifestyle (Avon)

Age of member	Net investment return for the 5 years to 31/12/2021	Net investment return for the 1 year to 31/12/2021
25	19.4% pa	10.4%
45	14.8% pa	8.7%
55	10.0% pa	7.5%

Net investment returns for the alternative investment options

As an alternative to the default investment strategy, members of the NMP Section have the following investment options:

- The choice of three alternative lifestyle strategies, the SW Passive Immediate Spend Lifestyle (Avon), the SW Passive Flexible Retirement Lifestyle (Avon) and the SW Passive Securing Lifelong Income Lifestyle (Avon),
- A range of individual investment funds in which members can choose to invest their pension savings (referred to as the self-select fund range).

For the SW Passive Immediate Spend Lifestyle (Avon), the SW Passive Flexible Retirement Lifestyle (Avon) and the SW Passive Securing Lifelong Income Lifestyle (Avon), because the net investment returns are different for members of different ages, the relevant table below shows the annual net investments returns for members aged 25, 45 and 55 at the start of one year and five-year periods.

The SW Passive Immediate Spend Lifestyle (Avon)

Age of member	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
25	19.4% pa	10.4%
45	14.8% pa	8.7%
55	10.0% pa	7.5%

The SW Passive Flexible Retirement Lifestyle (Avon)

Age of member	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
25	19.4% pa	10.4%
45	14.8% pa	8.7%
55	10.0% pa	7.5%

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The SW Passive Securing Lifelong Income Lifestyle (Avon)

Age of member	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
25	19.4% pa	10.4%
45	14.8% pa	8.7%
55	10.0% pa	7.5%

The self-select fund range

Fund name	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
Equity funds		
SW Aquila UK Equity Index	16.9% pa	5.1%
SW Aquila World ex-UK Equity Index	22.9% pa	13.4%
SW L&G 30:70 Global Equity Index Currency Hedged	19.9% pa	10.7%
Multi-Asset funds		
SW Passive Multi-Asset V*	21.3% pa	11.1%
SW Passive Multi-Asset IV*	14.8% pa	8.7%
SW Passive Multi-Asset III*	10.0% pa	7.5%
SW Passive Multi-Asset II*	5.4% pa	6.7%
SW Passive Multi-Asset I*	3.3% pa	6.3%
Fixed Interest/Bond funds		
SW Aquila Corporate Bond Over 15 Year Index	-6.3% pa	4.9%
SW Aquila Index-Linked Over 5 Year Gilt Index	4.4% pa	4.7%
SW Aquila Over 15 Year UK Gilt Index	-6.8% pa	3.8%
SW Passive Annuity Purchase*	-5.0% pa	3.5%
Cash funds		
SW Deposit & Treasury	-0.3% pa	0.0%
SW Money Market*	-0.2% pa	0.0%

* these funds are used in the default investment strategy and/or the three alternative lifestyle strategies

The Legacy Arrangements

For the legacy arrangements, the tables below show the net investments returns for the investment funds in which members were invested during the year ending 31 December 2021. This information has been provided by Utmost Life and Pensions and Prudential.

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AVCs (Utmost)

Fund name	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
Equity funds		
Managed	13.0% pa	5.7%
UK FTSE All Share Tracker	17.1% pa	4.7%
Global Equity	24.9% pa	11.6%

MPP (Prudential)

Fund name	Net investment return 1 year to 31/12/2021	Net investment return 5 years to 31/12/2021
Discretionary	11.7% pa	6.4%
Deposit	0.0% pa	0.0%
With-Profits Cash Accumulation	1.0% pa	1.2%

CHARGES AND TRANSACTION COSTS

The Trustees are required to set out in this statement the charges and transaction costs borne by members during the year ending 31 December 2021. All information on the charges and transaction costs was provided by Scottish Widows.

Charges

These are the annual fund management charges plus any additional fund expenses, such as custody costs. The combination of the annual fund management charges and any additional fund expenses is known as the Total Expense Ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the investment funds. The stated charges also include any costs, such as administration and investment costs.

Transaction costs

Transaction costs are costs that arise as a result of buying or selling the underlying investments held by each investment fund. However, there is no standard way of calculating transaction costs. The FCA has stipulated that a calculation methodology called 'slippage cost' should be used. This calculates the difference between the expected price of buying an underlying investment in an investment fund (for example, shares in a company) at the time the order is placed by the investment manager and the price at which the trade is executed.

One consequence of the above method is that negative transaction costs can arise (i.e. an overall gain is made on the transactions, which can happen as a result of changes in the pricing of the assets being bought or sold). Where negative transaction costs arose for an investment fund during the year to 31 December 2021, zero transaction costs are shown in Appendix II in line with DWP guidance. However, it is not expected that transaction costs will always be negative for the relevant investment fund and it is important to remember that negative or zero transaction costs during any one Plan year may not represent the actual transaction costs a member may expect to see in any future Plan year.

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The NMP Section

The default investment strategy

The investment funds used in the SW Passive Interim Lifestyle (Avon) are the:

- SW Passive Multi-Asset V fund
- SW Passive Multi-Asset IV fund
- SW Passive Multi-Asset III fund
- SW Passive Multi-Asset II fund
- SW Annuity Purchase fund
- SW Money Market fund.

The TER incurred by members invested in the SW Passive Interim Lifestyle (Avon) is dependent on the time until the members' retirement (as shown in the graph above) and varies between 0.350% to 0.358% (see the table below for the component fund charges). This means for members invested in the default investment strategy, the annual charge varied between £3.50 and £3.58 for every £1,000 invested.

The charges for the default investment strategy complied with the charge cap of 0.75% pa.

The alternative lifestyle strategies

The SW Passive Immediate Spend Lifestyle (Avon)

The investment funds used in the SW Passive Immediate Spend Lifestyle (Avon) are the:

- SW Passive Multi-Asset V fund
- SW Passive Multi-Asset IV fund
- SW Passive Multi-Asset III fund
- SW Passive Multi-Asset I fund
- SW Money Market fund.

The TER incurred by members invested in the SW Passive Immediate Spend Lifestyle (Avon) is again dependent on the time until the members' retirement and varies between 0.352% to 0.358% (see the table below for the component fund charges). This means for members invested in this lifestyle strategy, the annual charge varied between £3.52 and £3.58 for every £1,000 invested.

The SW Passive Flexible Retirement Lifestyle (Avon)

The investment funds used in the SW Passive Flexible Retirement Lifestyle (Avon) are the:

- SW Passive Multi-Asset V fund
- SW Passive Multi-Asset IV fund
- SW Passive Multi-Asset III fund
- SW Passive Multi-Asset II fund
- SW Money Market fund.

The TER incurred by members invested in the SW Passive Immediate Spend Lifestyle (Avon) is again dependent on the time until the members' retirement and varies between 0.352% to 0.358% (see the table below for the component fund charges). This means for members invested in this lifestyle strategy, the annual charge varied between £3.52 and £3.58 for every £1,000 invested.

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The SW Passive Securing Lifelong Income Lifestyle (Avon)

The investment funds used in the SW Passive Securing Lifelong Income Lifestyle (Avon) are:

- the SW Passive Multi-Asset V fund
- the SW Passive Multi-Asset IV fund
- the SW Passive Multi-Asset III fund
- the SW Annuity Purchase fund
- the SW Money Market fund.

The TER incurred by members invested in the SW Passive Immediate Spend Lifestyle (Avon) is again dependent on the time until the members' retirement and varies between 0.350% to 0.358% (see the table below for the component fund charges). This means for members invested in this lifestyle strategy, the annual charge varied between £3.50 and £3.58 for every £1,000 invested.

The level of TERs and transaction costs applying during the year ending 31 December 2021 for the individual funds used in the lifestyle strategies are shown in the table below.

Component funds	Asset Class	TER	Transaction costs
SW Passive Multi-Asset V	Multi-Asset	0.352%	0.029%
SW Passive Multi-Asset IV	Multi-Asset	0.356%	0.041%
SW Passive Multi-Asset III	Multi-Asset	0.358%	0.043%
SW Passive Multi-Asset II	Multi-Asset	0.358%	0.046%
SW Passive Multi-Asset I	Multi-Asset	0.355%	0.020%
SW Passive Annuity Purchase	Bonds	0.350%	0.019%
SW Money Market	Cash	0.370%	0.011%

The self-select fund range

In addition to the lifestyle strategies, members have the option to invest in a range of individual investment funds. The level of TERs and transaction costs applying during the year ending 31 December 2021 for these funds are shown in the tables below. For example, for the SW Aquila UK Equity Index fund, the TER is 0.335%, meaning for members invested in this fund, the annual charge is £3.35 for every £1,000 invested.

Fund	Total Expense Ratio (TER)	Transaction costs
Equity funds		
SW Aquila UK Equity Index	0.335%	0.058%
SW Aquila World ex-UK Equity Index	0.345%	0.017%
SW L&G 30:70 Global Equity Index Currency Hedged	0.383%	0.036%
Multi-Asset funds		
SW Passive Multi-Asset V	0.352%	0.029%
SW Passive Multi-Asset IV	0.356%	0.041%

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Fund	Total Expense Ratio (TER)	Transaction costs
SW Passive Multi-Asset III	0.358%	0.043%
SW Passive Multi-Asset II	0.358%	0.046%
SW Passive Multi-Asset I	0.355%	0.020%
Fixed Interest/Bond funds		
SW Aquila Corporate Bond Over15 Year Index	0.345%	0.000%
SW Aquila Index-Linked Over 5 Year Gilt Index	0.345%	0.009%
SW Aquila Over 15 Years UK Gilt Index	0.345%	0.003%
SW Passive Annuity Purchase	0.350%	0.019%
Cash funds		
SW Deposit & Treasury	0.396%	0.011%
SW Money Market	0.370%	0.011%

The legacy arrangements

The tables below show the TERs and transactions costs for the legacy arrangements for the year ending 31 December 2021.

AVCs (Utmost)

Fund name	Annual Management Charge	Additional Expenses	TER	Transaction costs
Managed	0.75%	n/a	0.75%	0.0775%
UK FTSE All Share Tracker	0.50%	n/a	0.50%	0.1238%
Global Equity	0.75%	n/a	0.75%	0.1152%

MPP (Prudential)

Fund name	Annual Management Charge	Additional Expenses	TER	Transaction costs*
Discretionary	0.75%	n/a	0.75%	0.0783%
Deposit	The Deposit Fund is backed by the assets held within Prudential's With-Profits Fund. Any interest is declared monthly and there are no explicit charges.			0.1075%
With-profits Cash Accumulation	The charge varies over time as it depends on the performance of the With-Profits Fund.			0.1075%

* average transaction costs of up to last 5 years

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The impact of charges and costs

Scottish Widows has provided some illustrations (see Appendix I) for the default investment strategy and some of the self-select investment funds to provide an indication of how the charges and transaction costs paid by members impact their benefits. The returns shown are only estimates and cannot be guaranteed. There are a number of other factors that should be considered when making investment choices, not least the level of risk members are prepared to take.

When preparing the illustrations, the Trustees believe that Scottish Widows has considered the guidance issued by the DWP titled 'Reporting the costs, charges and other information: guidance for trustees and managers of occupational schemes' dated October 2021.

VALUE FOR MEMBERS

Each year, the Trustees are 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 Trustees consider that it broadly means that the costs and charges deducted from members' accounts provide good value in relation to the benefits and services provided by or on behalf of the NMP Section. The Trustees note 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.

In line with the above, the Trustees undertook a 'value for member' assessment for the year covered by this statement. The assessment was supported by a report prepared by Willis Towers Watson and was also undertaken in line with the Pensions Regulator's latest guidance (dated September 2021) and the relevant legislation.

To assess the value members receive from the NMP Section, the Trustees considered the following:

- The level of charges and transaction costs,
- The net investment performance (the performance allowing for all charges and transaction costs), and
- The governance and administration of the NMP Section, including broader elements of good value provided by the NMP Section.

As the majority of members are invested in the default investment strategy, the Trustees concentrated on this when considering charges and transaction costs and net investment performance.

For the year ending 31 December 2021, the Trustees concluded that the NMP Section provided good value for members. Further information is provided in the table below.

Area	Rating	Rationale for rating
Charges and transaction costs	Fair Value	<ul style="list-style-type: none">▪ The charges for the default investment strategy were around 0.35% pa (0.35% - 0.358% pa). These are just below the average charges for other DC arrangements (0.39% pa) and significantly below the statutory charge cap (0.75% pa).▪ The transaction costs for the investment funds underlying the default investment strategy were below the transactions costs incurred by similar investment funds.
Net Investment Performance	Good Value	<ul style="list-style-type: none">▪ Members pay for the investment management of their pension savings through the charges and transaction costs applied by Scottish Widows and the underlying investment managers.

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Area	Rating	Rationale for rating
		<ul style="list-style-type: none"> ▪ The investment funds underlying the default investment strategy are mainly 'passively managed', meaning they aim to closely track the performance of each fund's index benchmark. ▪ The net investment performance of the investment funds underlying the default investment strategy was within +/- 0.5% of each funds index benchmark.
Governance, Administration and Communications	Good Value	<ul style="list-style-type: none"> ▪ Members pay for the administration and communication services undertaken by Scottish Widows while the majority of the costs associated with the governance of the NMP Section, as well as some of the communication costs, are met by the Company. ▪ The Trustees monitor the performance and operation of the NMP Section at each of their Trustee meetings throughout the year with the assistance of the Company's Pensions Department, professional advisers and Scottish Widows. ▪ While a review of the default investment strategy was not undertaken during the 2021 Plan year, the Trustees commenced the next review in March 2022. ▪ While in some instances, Scottish Widows' performance against its service level agreement (SLA) was disappointing during 2021 (see the section on Monitoring Core Financial Transactions for more information), other aspects of the NMP Section's administration performed well e.g. all contributions were paid to Scottish Widows and invested with a minimum of delay. In addition, very few member complaints were received (less than 1 per 1,000 members). ▪ The quality of the NMP Section's member data remains very good*. ▪ Scottish Widows provides good quality written communications. It also provides good quality educational and planning tools via its membersite and during 2021 it held a number of member webinars on various topics. ▪ The Trustees also prepare their own communications to enhance member engagement and improve the overall quality, including an annual newsletter and member booklet.
Overall value	Good Value	<ul style="list-style-type: none"> ▪ Overall, and giving greater weight to net investment performance and the governance, administration and communications of the NMP Section, the Trustees concluded that members received good value during the year ending 31 December 2021.

* The Trustees are required to ensure that the data held on members is accurate and up to date. As at 30 September 2021, 98.3% of 'Common Data' (data that should be held by all pension schemes, such as a member's date of birth) and 99.9% of 'Scheme Specific Data' (data required for the accurate payment of benefits) was held by the NMP Section.

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The Trustees will continue to carry out a value for members assessment on an annual basis and will continue to review the costs and transaction charges deducted each year in order to ensure they continue to represent good value to members.

MONITORING THE CORE FINANCIAL TRANSACTIONS

The NMP Section

The administration of the NMP Section is principally undertaken by Scottish Widows, the NMP Section's administrator and investment manager, with assistance from the Company, including the Pensions Department. An important part of the administration undertaken by Scottish Widows and the Company is the processing of core financial transactions, which include (but are not limited to):

- The investment of contributions,
- Transfers into and out of the NMP Section,
- Switches between investment funds,
- Benefit payments to members.

To monitor the core financial transactions, the Trustees receive from Scottish Widows quarterly administration reports that include detailed information on how Scottish Widows has performed against its Service Level Agreement. This information is split between 'Time Critical Procedures', such as investment fund switches and the sale of units to allow the payment of members' benefits, and 'Manual Administration Procedures', which include the actual payment of member' benefits as well as other administration tasks, such as responding to member queries and complaints.

In addition, the Trustees have reviewed the processes and controls operated by the Company and Scottish Widows and consider them to be sufficient. In particular, the Trustees are satisfied that robust controls and processes are in place through the application of the agreed SLA with Scottish Widows, which covers the accuracy and timelines of all core financial transactions. Processes adopted by Scottish Widows to help meet the agreed SLA include:

- Full integration between their administration platform and dealing system
- Electronic checking of financial transactions
- Straight through processing for the majority of administrative functions, and
- "Second set of eyes" checking for manual tasks.

Further information on the processing of core financial transactions for the year to 31 December 2021 is provided below.

Contributions to the NMPS Section

All contributions deducted from members' pay as well as those due from the Company were paid to the NMP Section well within the statutory deadline. In additions, all contributions were invested with a minimum of delay.

The Trustees are therefore satisfied that they are compliant with the Pensions Regulator's Code of Practice No 5 on reporting the late payment of contributions i.e. no reports were required during the year ending 31 December 2021.

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Processing of Time Critical and Manual Administration Procedures

During the year covered by this statement,

- 76% of Time Critical Procedures were completed within the SLA, with the performance for individual months ranging from 43% to 100%,
- 80% of Manual Administration Procedures were completed within the SLA, with the performance for individual months ranging from 64% to 91%.

Performance against the SLA for some Time Critical and Manual Administration Procedures was disappointing during 2021. This was principally caused by Scottish Widows experiencing a notably higher number of member requests across all the pension schemes it administers (similar increased demand levels were experienced by all pension providers during 2021). To address this, Scottish Widows recruited additional resources into its administration team throughout 2021 (although this was partly offset by a higher than expected number of leavers), which has not only helped clear the back log that built up earlier in the year but has also meant that performance against the SLA started to improve towards the end of 2021. The improved performance is also expected to continue into 2022.

Overall, the Trustees are satisfied that the core financial transactions for the NMP Section were largely processed promptly and accurately during the year ending 31 December 2021 and there were no material administration errors in relation to the processing of core financial transactions. However, they will continue to closely monitor the performance of Scottish Widows at each Trustee meeting to ensure the expected improvement in service levels during 2022 are delivered.

The legacy arrangements

In relation to these arrangements, as they are closed to further contributions, financial transactions primarily relate to the payment of AVC benefits when a former member retires. Details of any issues relating to the payment of benefits are reported by the Pensions Department.

TRUSTEE'S KNOWLEDGE AND UNDERSTANDING

The Trustees are required to maintain appropriate levels of knowledge and understanding to run the Plan and the NMP Section effectively. Each Trustee must:

- Be conversant with the Plan's Trust Deed and Rules, the Statement of Investment Principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the NMP Section and the wider Plan,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how these requirements have been met during the year covered by this statement are set out below.

- An induction process for new Trustees, which includes relevant documentation as per the 'New Starter Pack' process and link to the Trustee Toolkit. New Trustees are advised of the requirement to complete this within 6 months of appointment. During the year, one new trustee was appointed in August 2021 who completed the toolkit in October 2021. A further new trustee was appointed in March 2022 who completed the toolkit in February 2022 ahead of their appointment.
- All Trustees have completed the Pensions Regulator's Trustee Toolkit.

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- Regular training incorporated into Trustee meetings. For example, in December 2021 training was provided on the Pensions Regulator's new single Code of Practice.
- The Trustees receive professional advice from their appointed advisers, who also attend Trustee meetings. The Trustees therefore receive regular updates on all pension matters, including governance requirements and legislative changes that impact the NMP Section (and the wider Plan) so they keep their knowledge of the law relating to pensions and trusts up to date.
- Occasional attendance at external seminars held by the Trustees' advisers and other third-party firms (although no such seminars were attended during 2021).
- Regular trustee assessments, with future bespoke training sessions planned following these assessments, to address any knowledge gaps. The last assessment was carried out in September 2019 by the Scheme Secretary using the Pension Regulator's assessment tool based on the Trustee Toolkit criteria and a review of trustee effectiveness was carried out in December 2020 (see below).
- Reviewing all NMP Section documents by the Trustees. For example, the SIP is formally reviewed at least every three years as well as when making any changes to the NMP Section's investments. In addition, the Plan's Trust Deed and Rules are consulted when considering and deciding to make any changes to the NMP Section and, where relevant, deciding individual member cases.
- The Trustees have 27 years combined experience serving the Plan. In addition to this, 4 of the Trustees work within a financial environment during their day-to-day roles at the Company; one Trustee has held a Finance Director role since 2010 with responsibilities including Treasury, Pensions accounting and Employee Benefits administration, one trustee has over 7 years experience in capital markets - mapping, accompanying, and designing liability management strategy, including pension plans, one Trustee works in the Human Resources environment and one Trustee in the Legal Department. Also, the Trustees have the following additional relative experience outside of Avon and qualifications:
 - One Trustee spent a year as a Pension Trustee in Canada, and has 4 years experience in the mutual fund industry at State Street,
 - One trustee is a trustee for the Avon US DB and DC schemes and is Chair of the Trustees for the Avon German DB scheme,
 - Masters Degree in banking and financial services, Chartered Institute of Management Accountants x 2, Institute of Chartered Accountants in England & Wales, Chartered Institute of Taxation, Association of Corporate Treasurers, Chartered Financial Analyst, Post Graduate Diploma in Human Resource Management and a qualified Solicitor.

All training and attendance at appropriate seminars is recorded in the Trustees' training log.

Based on the above, the Trustees consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts, and of the relevant principles relating to the funding and investment of occupational pension schemes, to fulfil their duties.

Review of Trustee effectiveness

In December 2020, with the assistance of their advisers, Willis Towers Watson, the Trustees undertook an evaluation of the performance and effectiveness of the Trustee Board. This covered a wide range of elements involved in trustee decision making and effectiveness, including the composition of the Trustee Board and succession planning, decision-making processes, external relations, monitoring and review framework, trustee meetings and the role of the Chair. Overall, the results demonstrated that the Trustees feel the Trustee Board is being managed effectively.

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In summary

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, legal advisors), the Trustees believe that they are well placed to exercise their functions and responsibilities properly and effectively in relation to both the NMP Section and legacy arrangements as well as the Plan as a whole.

Michelle Parczuk
Chair of the Trustees of the
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Date:

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Appendix I: The impact of charges and transaction costs

Introduction

The following information and illustrations have been provided by Scottish Widows on behalf of the Trustees.

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" on the projection of an example member's pension savings.

What are these illustrations for and how could they help you?

The following information is an 'illustration' only. This is to show you the possible effect of costs and charges on your pension savings to help you plan for your retirement. The figures shown in it are not personal to you and do not show the actual pension benefits you could get from the NMP Section.

Your benefits depend on many things, such as contributions from you and the Company, how your investment funds have performed, and costs and charges. You may get back less than you put in.

How charges affect your pension scheme's investment funds

On the following pages are tables which show how different costs and charges can impact your pension savings over certain periods of time, based on a selection of investment funds. The assumptions used are set out underneath the tables.

Under each investment fund, there are two columns. The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs and the "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs. By comparing the two you can see how much the charges over the years will impact the value of your pension savings.

It's important to understand how much or how little difference charges make to your pension pot, but we can't predict exactly what will happen in the future, so we've had to make some assumptions. The values shown are estimates and are not guaranteed.

Some important things to remember

The NMP Section offers other investment funds to those illustrated, with different growth potential and different charges, and also offers investment lifestyle strategies. If you have selected a lifestyling investment approach your pension pot will automatically be moved into different funds as you approach your retirement date and the NMP Section's literature will provide details of how this works. As the individual funds used in a lifestyling approach have different growth potential and different charges, the overall growth rate and overall charge will change over time.

For these reasons, a range of funds with a range of charges are shown, which are available to you and which could apply to your pension savings during the life of your plan. A personal projection of your pension savings is included in your annual benefit statement and you should read that to get an individual view of your projected pension benefits. You'll also find details of the actual charges applicable to you in the NMP Section's literature.

The figures shown in the tables:

- Should not be used to make investment decisions, so if you need to do that, we recommend that you take financial advice.
- May not be relevant to your personal circumstances. Your money may be invested in different funds, for example.

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The Default Lifestyle Strategy

Lifestyle strategies aim to provide a balance of growth opportunities in the early years and a degree of de-risking as you approach retirement. The actual return will depend on the funds chosen for each stage and the actual timing of any changes. When comparing possible returns from different funds, it is noted that higher risk funds will provide higher illustrative returns.

Table 1 and Table 2 below show the development of the projected pot size over time for a sample of ages. The development of the projected pension pot depends on the member's current age because the funds change as the member approaches retirement. Table 1 shows projected pot sizes assuming future contributions of £350 pm and Table 2 shows projected pot sizes assuming no future contributions.

The table below shows the average projected growth rates assumed for the default lifestyle strategy for a sample of terms to retirement:

Years to Retirement	Assuming future contributions Projected Growth Rate (Average)		Assuming NO future contributions Projected Growth Rate (Average)	
	1	1.30%	Below inflation	1.30%
3	1.10%	Below inflation	1.10%	Below inflation
5	1.00%	Below Inflation	0.90%	Below inflation
10	0.60%	Below Inflation	0.50%	Below inflation
15	0.50%	Below Inflation	0.30%	Below inflation
20	0.30%	Below Inflation	0.10%	Below inflation
25	0.20%	Below Inflation	0.10%	Above Inflation
30	0.00%	Above Inflation	0.30%	Above Inflation
35	0.10%	Above Inflation	0.40%	Above Inflation

Other assumptions are detailed in the notes following table 2.

Table 1 – assuming future contributions

Years	Age Now 21		Age Now 35		Age Now 45		Age Now 55		Age Now 60	
	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	16,400	16,300	16,200	16,200	16,200	16,200	16,100	16,000	16,000	16,000
3	25,500	25,200	24,900	24,700	24,800	24,600	24,400	24,200	24,000	23,800
5	34,800	34,300	33,800	33,400	33,400	32,900	32,600	32,200	31,700	31,300
10	58,300	56,900	56,800	55,500	54,300	53,000	51,500	50,300	-	-
15	82,600	79,700	79,800	77,000	74,900	72,300	-	-	-	-
20	108,000	103,000	101,000	96,400	92,100	88,100	-	-	-	-
25	135,000	127,000	121,000	114,000	-	-	-	-	-	-
30	159,000	149,000	136,000	128,000	-	-	-	-	-	-
35	180,000	167,000	-	-	-	-	-	-	-	-

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Table 2 – assuming NO future contributions

Years	Age Now 20		Age Now 35		Age Now 45		Age Now 55		Age Now 60	
	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	12,200	12,100	12,100	12,000	12,100	12,000	12,000	11,900	11,900	11,900
3	12,700	12,500	12,300	12,200	12,200	12,100	12,000	11,800	11,700	11,600
5	13,100	12,900	12,600	12,300	12,400	12,100	11,900	11,700	11,500	11,200
10	13,900	13,400	13,200	12,700	12,400	11,900	11,500	11,000	-	-
15	14,700	13,800	13,700	12,900	12,400	11,700	-	-	-	-
20	15,400	14,300	13,800	12,700	11,900	11,000	-	-	-	-
25	16,200	14,700	13,700	12,400	-	-	-	-	-	-
30	16,700	14,800	13,200	11,700	-	-	-	-	-	-
35	16,700	14,600	-	-	-	-	-	-	-	-

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65
3. The starting pot size is assumed to be £12,000.
4. Inflation is assumed to be 2.5% each year.
5. For Table 1, gross contributions of £350 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
6. It is assumed that no further contributions are made.
7. Values shown are estimates and are not guaranteed.
8. For the default lifestyle strategy, the projected growth rate varies over time as the funds invested in change.
9. The charges assumed for each fund are the current charges as shown in this statement.

Self-select fund range

The table shows the development of the projected pension pot over time before and after charges for members of any age assuming the pension pot is invested fully in the fund shown. The illustrations shown below are for a representative selection of the funds members may invest in. They were selected to reflect the range of projected returns and charges for the available funds.

Table 3 shows projected pot sizes assuming future contributions of £350 pm and Table 4 shows projected pot sizes assuming no future contributions.

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Table 3 – assuming future contributions

Years	SW Aquila UK Equity Index		SW Aquila World ex-UK Equity Index		SW Aquila Index Linked Over 5 Year Gilt Index		SW L&G 30:70 Global Equity Index Currency Hedged	
	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	16,400	16,300	16,400	16,300	15,800	15,800	16,400	16,300
3	25,500	25,300	25,500	25,300	23,300	23,200	25,500	25,200
5	35,000	34,500	34,900	34,500	30,600	30,200	35,000	34,500
10	60,400	58,900	60,300	58,900	47,500	46,500	60,300	58,800
15	88,500	85,400	88,200	85,300	62,800	61,000	88,300	85,000
20	119,000	114,000	119,000	114,000	76,700	73,900	119,000	113,000
25	153,000	145,000	152,000	144,000	89,300	85,400	153,000	144,000
30	191,000	178,000	190,000	178,000	100,000	95,700	191,000	177,000
35	233,000	215,000	231,000	214,000	111,000	104,000	232,000	213,000

Table 4 – assuming NO future contributions

Years	SW Aquila UK Equity Index		SW Aquila World ex-UK Equity Index		SW Aquila Index Linked Over 5 Year Gilt Index		SW L&G 30:70 Global Equity Index Currency Hedged	
	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	12,200	12,100	12,200	12,100	11,700	11,700	12,200	12,100
3	12,700	12,500	12,700	12,500	11,300	11,100	12,700	12,500
5	13,200	12,900	13,200	12,900	10,800	10,600	13,200	12,900
10	14,600	14,000	14,500	14,000	9,860	9,520	14,600	14,000
15	16,100	15,200	16,000	15,200	8,940	8,480	16,100	15,100
20	17,800	16,500	17,700	16,400	8,100	7,550	17,700	16,300
25	19,700	17,800	19,500	17,800	7,350	6,720	19,600	17,600
30	21,700	19,300	21,500	19,300	6,660	5,990	21,600	19,100
35	24,000	20,900	23,700	20,900	6,040	5,330	23,900	20,600

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65
3. The starting pot size is assumed to be £12,000.
4. Inflation is assumed to be 2.5% each year.
5. For Table 3, gross contributions of £350 per month are assumed from the start of the projection to retirement and are assumed to increase in line with inflation at 2.5% per year.
6. For Table 4, it is assumed that no further contributions are made.
7. Values shown are estimates and are not guaranteed.
8. The projected growth rates for each fund are:

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- SW Aquila UK Equity Index: 2.0% above inflation
- SW Aquila World ex UK Equity Index: 1.9% above inflation
- SW Aquila IL Over 5 Year Gilt Index: 2.0% below inflation
- SW L&G 30:70 Global Equity Index Currency Hedged CS1: 1.9% above inflation

9. The charges assumed for each fund are the current charges as shown in the Chair's Statement.

10. Source: Scottish Widows.

The Legacy Arrangements

The illustrations below are in relation to the Money Purchase Plan with Prudential.

The table shows the development of the projected pension pot over time before and after charges for members of any age assuming the pension pot is invested fully in the fund shown. The illustrations shown below are for a representative selection of the funds members may invest in. They were selected to reflect the range of projected returns and charges for the available funds.

Table 5 shows projected pot sizes assuming no future contributions.

Table 5 – assuming NO future contributions

	Discretionary Fund		With-Profits Cash Accumulation Fund	
Growth rates*	2.67%		-2.50%	
Yearly cost	0.94%		0.07%	
End of year	Before charges	After charges	Before charges	After charges
1	£7,180	£7,110	£6,820	£6,820
5	£7,960	£7,590	£6,180	£6,180
10	£9,050	£8,240	£5,460	£5,460
15	£10,200	£8,940	£4,830	£4,830
20	£11,700	£9,700	£4,270	£4,270
25	£13,300	£15,500	£3,770	£3,770
27	£14,000	£10,800	£3,590	£3,520

*growth rates for the funds have allowed for the effects of inflation

Notes:

1. Projected pension pot values are in today's money which means they have been adjusted for inflation.
2. The starting pot size is assumed to be £7,000
3. No regular contributions
4. The term of the investment is from age 38 to 65.
5. The funds shown are those available under the Money Purchase Plan and give a good idea of how costs and charges can affect returns and is not intended as a recommendation.
6. Different funds have different charges and cost which Prudential have reflected in the projections.
7. Source: Prudential.

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Appendix II: Statement of Investment Principles (September 2020)

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