

The AT&T Pension Scheme - 2001 Plan

Chair's Statement 2022

Dear Member

Welcome to the 2022 Chair's Statement for the 2001 Plan (the Plan), which is the defined contribution section of the AT&T Pension Scheme. This statement aims to give Plan members clear information on the operation and governance of the Plan and enable you to ask the Trustees informed questions about your benefits and the Plan.

There are some key points that will help you understand the contents of the Statement.

- This statement is formally required under The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) and covers the period from 01 January 2022 to 31 December 2022. It is included in the 2023 Trustee Annual Report
- The AT&T Pension Scheme has a corporate trustee, AT&T Pension Scheme Trustee Limited (the Trustee), and this statement is signed by me as the Chairman of the AT&T Pension Scheme Trustee Limited Board of Directors. The term ‘Trustees’, when used in this statement refers to the individual Trustee Directors who make up the Board.
- It contains the following sections, which set out the regulatory requirements, the position of the Plan and the action that the Trustees have taken during this period:
 1. The Default Investment Option, with a copy of our Statement of Investment Principles (SIP) attached.
 2. Processing of core financial transactions,
 3. Member borne charges and transaction costs,
 4. Our Value for Members assessment, and
 5. Trustee knowledge and understanding.

We hope that you find this Statement informative and useful and we are always keen to receive feedback and questions from members. You can get in touch by emailing us at - attpensionscheme@capita.co.uk

Ian Hawke

Chair of Trustees, The AT&T Pension Scheme

The Default Investment Option

The Trustee is required to design default arrangements in members' interests and keep them under review, taking account of the level of costs and risk profile that are appropriate for the Plan's membership given the overall objective of the default investment strategy.

[The Occupational Pension Schemes (Investment) Regulations 2005, Pensions Act 1995]

The Plan is used by AT&T as a Qualifying Workplace Pension Scheme for automatic enrolment purposes and has a default investment option (DIO) into which all contributions for new joiners are automatically invested. Over 90% of the Plan's total assets were invested in the default option at 31 December 2022, and the Trustees are responsible for monitoring this option to ensure that it remains suitable for members.

Statement of Investment Principles

The Trustees prepare and annually assess a Statement of Investment Principles (SIP) that sets out our investment objectives, implementation methods and policies relating to the management of the DIO and self-select funds. A copy of the current SIP, dated 24 January 2022, is attached to this Statement for your reference. The Trustees also prepare an annual Implementation Statement, which is also published on the Scheme Website. This sets out;

- (i) how the Trustees have followed the principles in the SIP;
- (ii) describes any review of the SIP undertaken during the year;
- (iii) explains any change made to the SIP during the year; or gives the date of the last review if longer.
- (v) Describes the voting behaviour of the Plan's investment managers during the year.

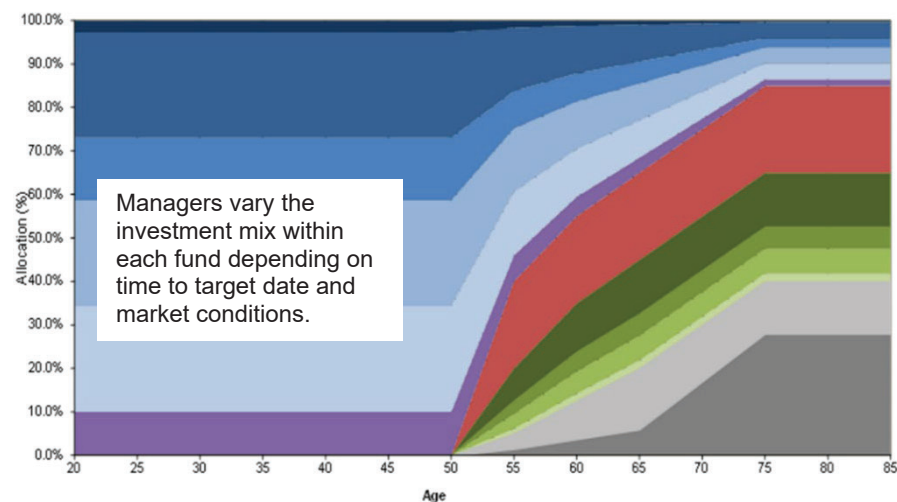
Managing Risk

The designated default investment option for the Plan is the range of Aon Managed Retirement Pathway Funds. These are "target date" funds that reach a mixed asset allocation at a member's selected retirement age, reflecting the Trustee's expectation that most members will take their benefits in a flexible form during retirement, with many people using flexi-access drawdown.

On joining the Plan, members are automatically enrolled into the Aon Retirement Pathway Fund that most closely matches their Selected Retirement Age.

Within the Pathway Funds the managers vary the mix of investments over time to optimise growth when members are younger and preservation of capital as they near retirement. The chart illustrates how this takes place.

When selecting the Retirement Pathway Funds lifestyle profile, the Trustees considered the demographics of the Plan membership and the retirement options available to members.



Monitoring investments

The Trustee receives a report on the Plan's investment funds, including the DIO, at each quarterly Trustee meeting. This is prepared and presented by our delegated investment manager, Aon Investments Limited (AIL), who are authorised by the Financial Conduct Authority to provide us with investment services. Issues with fund managers are considered and if appropriate, the Trustees may instruct amendments to be made.

In addition to this routine monitoring, we carry out an in-depth formal review of the DIO every three years. The last review was completed in mid-2018, and the Trustee then made the decision to move to delegated investment management with AIL. This process was completed in November 2019 and the next formal review of the DIO is planned for 2023.

Responsible Investment

Responsible investment considers the environmental, social and governance (ESG) impact that the Plan's investments may have and how we can better manage risk and generate sustainable long-term returns that benefit members and society. The Trustees have a legal obligation to consider investment factors that are “financially material considerations” such as climate change, unsustainable business practices, or unsound corporate governance, and “non-financial matters” such as the views of Plan members. Details on how this is actioned are given in the Implementation Statement.

ESG is an area of increasing focus on this area from government and the regulators. Managing ESG considerations is one of the reasons for our decision to delegate our tactical investment management to Aon. To maintain and increase our knowledge, the Trustees receive training on the regulatory requirements from our professional advisers and hold an on-going dialogue with AIL and Aon's Responsible Investment Team, which helps us continue to shape our policy.

Security of Assets

Nearly all investments are exposed to the risk that their value can fall, for example, if company share prices fall or there is a financial crisis. However, there is also a very small risk of malpractice within the investment management process, which the individual investment management companies are responsible for addressing. We expect the investment managers to cover any losses caused by a failure of their procedures, but there is always a risk that they may not be able to do so. For the Plan, the investment position is as follows:

- The DC investment strategy has been delegated to AIL, who are our appointed fund manager, responsible for day-to-day management of the Plan's assets.
- AIL invest our assets using the Aegon investment platform (Aegon is the UK brand name of Scottish Equitable plc), so the assets are held within a life insurance policy with Aegon.
- Aegon offer a range of pension funds, many managed by external fund managers, such as BlackRock, Legal & General or HSBC.
- AIL make the day to day decisions about which of these funds to select, the proportion of our assets to place in each fund and when and why to switch managers.

The Trustee receives an annual report from AIL on the security of our assets, which considers AIL (our delegated fund manager), Aegon (the platform provider) and the underlying investment managers on the Aegon platform. Different levels of protection apply in each case, depending on the structures of the various investment funds used by members.

The Trustee is satisfied that the risk of loss associated with the current arrangement is low and that the appropriate safeguards are in place to mitigate the identified risks.

Net investment returns

The Trustees are required to report on net investment returns for each default arrangement and for each non-default fund which scheme members were invested in during the scheme year. Net investment return refers to the returns on funds minus all member-borne transaction costs and charges.

The net investment returns have been prepared having regard to statutory guidance. It is important to note that past performance is not a guarantee of future performance.

As the funds became the Plan's Default Investment Option from November 2019, 5 year net performance figures are produced assumed that the same level of net charges apply, for illustrative purposes. We intend to provide the actual 3 year figures in next year's report.

(i) Default arrangement – Aon Managed Retirement Pathway Funds

Performance to 31 December 2022	Annualised returns (%)	
Age of member at 1 January 2022	1 year	5 years
25	-7.6	5.8
45	-8.5	5.4
55	-8.6	3.0

Source: Aon Investments Limited

(ii) Self-select investment funds

Performance to 31 December 2022	Annualised returns (%)	
Objective Based Funds	1 year	5 years
Aon Managed Bond Phase Fund	-10.6	-0.4
Aon Managed Core Diversified Asset Fund	-12.6	3.8
Aon Managed Core Initial Growth Phase Fund	-7.3	9.0
Aon Managed Diversified Asset Fund	-8.3	1.1
Aon Managed Initial Growth Phase Fund	-6.5	6.1
Aon Managed Liquidity Fund	1.1	0.4
Aon Managed Long Term Inflation Linked Fund	-38.1	-5.1
Aon Managed Pre-Retirement Bond Fund	-29.3	-4.0
Aon Managed Short Term Inflation Linked Fund	4.0	2.1

Performance to 31 December 2022	Annualised returns (%)	
Asset Class Based Funds	1 year	5 years
Aegon BlackRock Emerging Markets Equity Index Fund	-10.5	0.5
Aegon BlackRock UK Equity Index Fund	-0.4	2.7
Aegon BlackRock World (ex-UK) Equity Index Fund	-9.4	8.9
Aegon HSBC Islamic Global Equity Index Fund	-15.5	11.5
Aegon LGIM Ethical Global Equity Index Fund	-6.5	9.4
Aon Managed Active Global Equity Fund	-11.8	7.1
Aon Managed Diversified Multi Strategy Bond Fund	-3.1	0.2
Aon Managed Global Equity Fund	-5.9	6.3
Aon Managed Property and Infrastructure Fund	-11.6	3.8
Aon Managed Passive Corporate Bond Fund	-17.8	-1.6

Source: Aon Investments Limited

(iii) Additional Voluntary Contributions

The Scheme has three group AVC policies with Zurich Financial Services, which received different types of contribution, including regular savings, lump sum bonus payments and transfers in from other UK pension schemes.

The table below shows the annualised net investment returns for 1 and 5-year periods ending on 31 December 2022. The annualised returns shown are net of all fund charges related to the funds including any fund-based charges taken by a deduction of units.

Annualised returns to 31/12/22	AT&T Global Pension AVC Scheme		AT&T Global Pension Scheme & AT&T Global Transfer Scheme	
Term to selected retirement age at 31/12/2021 (Years)	5 Years (2017-2022)	1 Year (2021-2022)	5 Years (2017-2022)	1 Year (2021-2022)
0	-6.7%	-38.4%	-6.1%	-38.0%
10	4.4%	-3.2%	5.0%	-2.6%
20	4.4%	-3.2%	5.0%	-2.6%

The following table shows the annualised net investment returns for the funds that members may select.

For with profits funds the annualised investment return shown is based on the growth in the surrender value for a fund of £10,000. This is not solely owing to the investment return on the underlying assets. For further information on the unitised with profits funds and information on the return on the underlying assets please see [100 0 with profits fund explained | With profits \(zurich.co.uk\)](#).

Performance to 31 December 2022 (%)	The AT&T Global Pension AVC Section		The AT&T Global Transfer Scheme The AT&T Global Pension Scheme	
	5 years	1 year	5 years	1 year
Aquila Over 15 Year UK Gilt Index ZP	-7.60%	-41.50%	-6.90%	-41.10%
American 2 EP	10.90%	-11.60%	12.00%	-10.80%
Aquila 50/50 Global Equity Index ZP	4.40%	-3.20%	5.00%	-2.60%
Aquila Index-Linked Over 5 Year Gilt Index ZP			-5.10%	-38.10%
Aquila UK Equity Index EP	2.00%	-0.80%	3.10%	0.20%
Aquila UK Equity Index ZP	2.30%	-0.60%	3.00%	0.10%
Asia 2 EP	2.20%	-14.60%	3.10%	-13.80%
BlackRock Sterling Liquidity ZP			0.60%	1.40%
BNY Mellon Global Balanced ZP	6.30%	-5.10%	6.70%	-4.60%
Equity Managed 2 EP	4.40%	-6.70%	5.30%	-5.90%
European 2 EP	6.70%	-6.10%	7.70%	-5.20%
Global Select 2 EP	7.00%	-15.90%	7.90%	-15.20%
Japan 2 EP	4.40%	-11.50%	5.40%	-10.70%
Long Dated Gilt 2 EP	-7.70%	-41.60%	-6.90%	-41.10%
Managed 2 EP	3.40%	-9.20%	4.20%	-8.50%
Property 2 EP	4.10%	-10.60%	4.70%	-10.10%
Secure 2 EP	-0.10%	0.10%	0.80%	1.00%
UK Equity 2 EP	1.60%	-4.30%	2.40%	-3.60%
UK Preference and Fixed Interest 2 EP	-4.00%	-24.50%	-3.20%	-23.80%
Henderson Global Sustainable Equity EP			10.40%	-15.40%
With-Profits EP			0.20%	-7.90%

Summary

Investment is not easy; the future is uncertain and investment markets are influenced by many different factors, making it very difficult for fund managers to produce consistent returns. The Trustees are mindful of this complexity and conscious that future member behaviour and benefit choices are evolving. These issues were considered when we decided to delegate some of our investment management decisions to AIL.

Delegation allows AIL to make the day to day decisions on how to invest our money, including decisions on the proportion placed in different types of investments (asset allocation) and which fund managers to use to run these investments (manager selection). AIL's decision making and implementation processes allow them to act on information and take decisions far more rapidly than the Trustees, giving us the advantage of their professional expertise in a quicker and more responsive way.

Of course, as your Trustee Board, we continue to monitor member retirement choices, innovations in investments and changes in governance practice to ensure that we offer a default investment option that is suitable and provides value for members.

To recap some key points:

- * We have agreed a **Statement of Investment Principles** after taking suitable advice from our professional advisers.
- * We have appointed a **professional fund manager** to manage the Plan's investments on a day to day basis.
- * We receive **regular reports** on fund performance and levels of risk and charges.
- * We have **Trustee training** at our regular meetings and our annual training day, to ensure that we are familiar with the investment issues that we face.

The Trustee Board considers the balance between the investment risks, charges and return offered by the default investment option to be appropriate for the Plan's membership.

Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions, including 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/beneficiaries, are processed promptly and accurately.

[Regulation 24, The Occupational Pension Schemes (Scheme Administration) Regulations 1996]

Plan Administration

The Plan's core financial transactions are undertaken on behalf of the Trustee by Capita Pension Solutions Limited (Capita), who are the Plan's administrators. All monies received or paid out by the Plan passes through the Trustee Bank Account or uses the straight through processing procedures between investment funds.

The Trustee receives an administration report from Capita at each Trustee meeting. This includes the management accounts for the quarterly period, details of the payment of contributions, the investment transactions and the administration performance against Capita's generic Service Level Agreement (SLA) across the range of member transactions that were administered.

The service levels reported by Capita in 2022 are shown in Table 1 for comparison purposes.

The percentage of tasks completed within the SLA timescale has decreased slightly compared to the year ending 31 December 2021. The time to taken to complete death claims and transfers can be protracted and the Trustees are aware of the issues that Capita face in these areas. Nevertheless, the Trustees wish members and their dependants to receive timely responses and fair treatment and will continue to monitor the position, and work closely with Capita to identify and action improvements as quickly as possible.

Investment administration

The investment of the monthly contributions is one of the key areas that we review as part of our core financial transaction monitoring, and each administration report from Capita includes details of the total amount contributed each month and the investment turnaround times.

These have been within our expected timescales.

Case Type	Cases completed within SLA timescale			
	Q1	Q2	Q3	Q4
AVC	96%	N/A	84%	100%
Deaths	50%	0%	75%	50%
Estimate	N/A	0%	96%	93%
General	91%	77%	98%	95%
Leavers	100%	N/A	100%	100%
New Starters	100%	N/A	83%	100%
Pension Sharing	N/A	N/A	100%	0%
Retirement	93%	100%	50%	100%
Switch	56%	N/A	100%	100%
Transfer out	82%	0%	85%	96%
Transfers in	100%	N/A	60%	100%
Web enquiry	100%	100%	97%	100%
Total	94%	75%	96%	96%

Source: Capita

Independent Audit Reports

In addition to the administration report at the quarterly Trustee meetings and feedback from the Company and Plan members, the Trustee also considers the findings of an independent audit conducted by the Scheme Auditor, Deloitte.

This scheme audit looks at the financial transactions involved in the payment of contributions and benefits, and the investment of the Scheme's assets. Deloitte consider the findings within Capita's AAF 01/20 internal controls report*, which is audited for Capita by Ernst & Young LLP, and also conduct their own testing and verification programme.

Deloitte have completed the Scheme Audit and have found no issues of significant or material concern that should be reported to the Trustees. The Scheme Audit was completed without qualification or modification.

Post Reporting Period Cyber Incident

On 31 March 2023, the Plan's administrator's, Capita, identified a cyber incident. Although this is subsequent to the period covered in this Chair's Statement, as this is a significant issue that could potentially have an impact on members, the Trustee and Deloitte have included some information in this Statement and in the Scheme Audit.

The Trustee has, and continues to be in, frequent contact with Capita. As at the time of writing (July 2023), Capita do not believe any 2001 Plan data has been compromised.

Summary

The Trustees are satisfied that that the separate parties involved in the administration and investment of the Scheme's assets, including the contributions and investments for the 2001 Plan (AT&T Payroll, Capita and Aon) have processes and controls in place that are sufficient to ensure accurate and timely completion of the Core Financial Transactions for the Plan.

* *Capita Pension Solutions Limited: Report on Internal Controls of the Service Organisation made available to third parties under ISAE 3402 and AAF 01/20 for the year ended 31 December 2022.*

Member Borne Charges and Transaction costs

The Trustee should regularly monitor the level of charges borne by members through the funds. These charges comprise:

- *explicit charges, such as 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 borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.*

From 6 April 2018, The Trustee is also required to produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values.

[Regulation 24, The Occupational Pension Schemes (Scheme Administration) Regulations 1996], [Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018]

Although the costs of the Plan's administration, professional fees and Trustee expenses are met by AT&T, there are charges levied on your pension savings for the management and dealing of your investments that you pay from your investment funds. These member borne charges can be significant for some funds, and investment managers are required to disclose the additional transaction costs that their funds incur on top of the annual management charges and any additional expense charges. The Trustee must also include information on the impact of these transaction costs upon members benefits by preparing an illustration of the cumulative effect, which is included in this Statement.

What are transaction costs?

Transaction costs are largely the result of buying and selling investments within a fund, and are incurred on an on-going basis, having a negative impact on the performance of the fund. They are very difficult to identify explicitly, so the costs shown below are calculated using the "slippage" method set by the Financial Conduct Authority.

Explicit transaction costs

These are the costs that are directly paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker to buy and sell investments) and costs of borrowing or lending securities. These can be identified and are expressed within the Total Expense Ratio (TER). This is a figure for the total charges expressed as a percentage of the total fund value. It is made up of:

- the Annual Management Charge ('AMC'), which is the fee paid to the fund manager for their services, including administration costs, and
- any Additional Expenses (AE) involved with running a fund, such as the legal, audit, marketing and regulatory costs.

Implicit transaction costs

These costs are incurred within the day to day management of assets, such as the cost of buying and selling securities or the cost of any derivatives. These costs are incurred on an on-going basis and are included in the daily unit price calculation. Funds that hold securities that are expensive to trade or that trade frequently, are likely to have higher transaction costs than funds that trade less frequently.

Calculating transaction costs

The Financial Conduct Authority “slippage method” calculates transactions costs as the difference between the actual price paid (execution price) and the quoted ‘mid-market price’ at the time the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as a ‘negative cost’. This can happen when buying an asset if the actual price paid ends up being lower than the mid-market price at the time of placing the order because of something that pushes the price of the asset down - such as some negative news or a big sell order by someone else.

We have set out the transaction costs on each fund held by members over the Plan year in the table below as a percentage of the fund over the period stated. The default arrangement is an Aon Managed Retirement Pathway Fund, with a TER of 0.25% - 0.29%. The AMC on these funds is capped at 0.38% p.a. Both these figures are well below the level of the Statutory Charge Cap (0.75% p.a.). A full listing of the TERs and transactions costs is shown below as annual percentages:

Aon Managed Funds	AMC % p.a.	AFE¹ % p.a.	TER² % p.a.	total transaction costs %p.a.	Maximum Charge % p.a.
Aon Managed Active Global Equity Fund	0.69	0.01	0.70	0.03	1.08
Aon Managed Core Initial Growth Phase Fund	0.14	0.01	0.15	0.03	Note 3
Aon Managed Core Diversified Asset Fund	0.14	0.01	0.15	0.03	Note 3
Aon Managed Diversified Asset Fund	0.24	0.02	0.26	0.20	0.43
Aon Managed Diversified Multi Strategy Bond Fund	0.32	0.03	0.35	0.49	0.73
Aon Managed Global Equity Fund	0.16	0.05	0.21	0.05	0.28
Aon Managed Liquidity Fund	0.23	0.03	0.26	0.01	Note 3
Aon Managed Long Term Inflation Linked Fund	0.13	0.00	0.13	0.03	Note 3
Aon Managed Passive Corporate Bond Fund	0.13	0.01	0.14	0.04	0.18
Aon Managed Pre-Retirement Bond Fund	0.25	0.00	0.25	0.00	0.28
Aon Managed Property and Infrastructure Fund	0.41	0.01	0.42	0.10	0.48
Aon Managed Retirement Pathway Funds (DIO)	0.24	0.01 to 0.05	0.25 to 0.29	0.13	0.38
Aon Managed Retirement Pathway to Annuity Funds	0.24	0.01 to 0.04	0.25 to 0.28	0.00 to 0.11	0.38
Aon Managed Retirement Pathway to Cash Funds	0.24	0.03	0.27	0.01 to 0.11	0.38
Aon Managed Short Term Inflation Linked Fund	0.13	0.00	0.13	0.03	Note 3

Externally Managed Funds	AMC % p.a.	AFE ¹ % p.a.	TER ² % p.a.	total transaction costs %p.a.
BlackRock Emerging Markets Equity Index	0.20	0.05	0.25	0.00
BlackRock UK Equity Index	0.05	0.01	0.06	0.07
BlackRock World (Ex-UK) Equity Index	0.05	0.01	0.06	0.00
HSBC Islamic Global Equity Index Fund	0.35	0.00	0.35	0.01
LGIM Ethical Global Equity Index	0.35	0.01	0.36	0.00

Source: Aon Investments Limited 2022

Notes

1. Additional fund expenses are based on the annual average expenses as at 31 December 2020.
2. The ongoing charge or TER is the sum of the current AMC and the additional fund expenses shown.
3. There is no maximum overall fund charge for this fund and members will be notified of any change to the current AMC.

Costs for the AVC arrangements:

The AT&T Pension Scheme has three defined contribution policies with Zurich, for members of the defined benefit section who wish to make additional voluntary contributions (AVCs). The charges (TER) and transaction costs for the funds that are used by members in these policies are shown below:

Table 3 – Charges & Transaction Costs – Zurich Managed Funds		10001152 - The AT&T Global Pension Scheme		10005316 - The AT&T Global Transfer Scheme		10004925 - The AT&T Global Pension AVC Section	
Fund Code	Fund Name	TER (% p.a.)	Transaction Costs (% p.a.)	TER (% p.a.)	Transaction Costs (% p.a.)	TER (% p.a.)	Transaction Costs (% p.a.)
2AME	American 2 EP			0.05	0.52		
ZB50	Aquila 50/50 Global Equity Index ZP	0.11	0.00	0.11	0.00	0.74	0.00
ZBGC	Aquila Over 15 Years UK Gilt Index ZP	0.06	0.00			0.75	0.00
BG11	Aquila UK Equity Index EP		0.03				
ZBUE	Aquila UK Equity Index ZP			0.06	0.03		
2ORN	Asia 2 EP	0.01	0.80	0.10	0.80	1.01	0.80
ZNGB	BNY Mellon Global Balanced ZP			0.50	0.10		
3ADV	Global Select 2 EP			0.08	0.24		
3MAN	Managed 2 EP			0.19	0.35		
2EUR	European 2 EP	0.06	1.80	0.06	1.80	0.99	1.80
2PRO	Property 2 EP	0.50	0.17	0.50	0.17	1.07	0.17
2SEC	Secure 2 EP	0.07	0.00	0.07	0.00	0.98	0.00

Source – Zurich Financial Services – June 2023

Notes

1. For funds with more than one component, transaction cost calculations are based on blended fund-level holdings at the report date given.
2. Indirect Costs relate to transaction costs incurred within an underlying investment vehicle within the fund manager's fund.
3. Transaction cost totals represent annualised transaction costs incurred by the fund manager within the underlying fund. Figures do not currently contain impacts of dilution adjustments incurred at the Zurich fund level when Zurich deals in the underlying funds.
4. Following recent guidance from the FCA, all negative transaction costs have been set to zero.
5. Reporting cycles may differ between fund managers, and so data provided may not align completely with the overall report date. The latest available annualised information has been used in each case.
6. Fund managers may use different methodologies to calculate their transaction costs; therefore overall transaction cost figures may not be directly comparable, or may exclude some elements or breakdowns of the total cost.

Member illustrations

Trustees and managers should present the costs and charges typically paid by a member as a figure in pounds, or pounds and pence.

[DWP Statutory Guidance: - Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes – effective from September 2018], [Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018]

The following illustrations show the cumulative effect of costs and charges on the value of member savings within the Plan over a period of time and have been prepared having regard to statutory guidance.

As each member has a different amount of savings within the Plan and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustees have to make a number of assumptions, which are explained in the notes sections below the illustrations. Of course, these assumptions will not be true in practice, so the illustrations do not promise what could happen in the future. This means that the information contained in the Plan Chair's Statement is not a substitute for the individual and personalised illustrations that are provided to members each year by the Plan administrators.

The illustrations provided

Each of the charts and tables below illustrates the potential impact that costs and charges might have on some of the investment options provided by the Plan.

- The Charts show the potential impact that costs and charges might have for three example members who have assets invested in the **Aon Managed Retirement Pathway** Funds (the default investment option).
- Under each chart, a Table shows the potential impact of the costs and charges (TERs and TCs). Since the projected fund values are also dependent on investment returns as well as the level of costs and charges, we have included some comparison figures in the tables in addition to the default option. These illustrate the effect of costs on the projected fund values if the member were invested in:
 - the default strategy, and
 - a **higher risk** profile fund (the Aon Managed Active Global Equity Fund), which has both a higher expected return and higher level of costs and charges, and
 - the **lowest returning fund** (the Aon Managed Long Term Inflation Linked Fund), which has both a lower expected return and lower level of costs and charges.

Illustrations are provided for:

- the **youngest active** member,
- an **active member of average age** and
- a **deferred member of average age** (ages are determined using data for the Plan and are consistent with previous illustrations).

The fund values used are based on median pot sizes held by members in the Aon Managed Retirement Pathway Funds, as a large proportion of members are invested in the default Drawdown strategy, which automatically transitions members' funds between the underlying funds as members approach retirement age. Members are also offered alternative lifestyle strategies and a series of self-select funds that bear a range of charges and transaction costs.

Strawman 1 - Youngest Active Member

The illustration below is for an active member with 40 years to retirement, on a current salary of £26,000 with contributions of 13% per annum, who is invested in the default option (Retirement Pathway Funds targeting drawdown). The estimated impact of charges on projected retirement values is shown overleaf. Projections are based on a current fund value of £1,200 and are shown in current money terms.

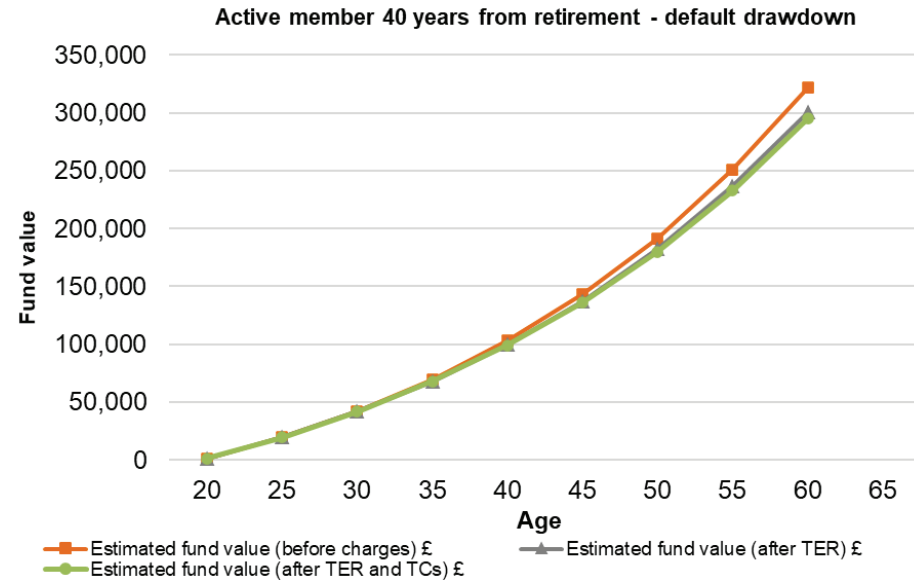


Table 4 – Illustration for Youngest Active Member

Age	Default Strategy			Aon Managed Active Global Equity Fund			Aon Managed Long Term Inflation Linked Fund		
	Estimated fund value (before costs) £	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)
20	1,200	1,200	0	1,200	1,200	0	1,200	1,200	0
25	20,110	19,940	170	20,110	19,660	450	18,370	18,300	70
30	43,550	42,810	740	43,550	41,640	1,910	36,420	36,120	300
35	72,600	70,730	1,870	72,600	67,800	4,800	55,380	54,710	670
40	108,620	104,810	3,810	108,620	98,930	9,690	75,300	74,090	1,210
45	153,270	146,420	6,850	153,270	135,990	17,280	96,240	94,290	1,950
50	208,620	197,210	11,410	208,620	180,110	28,510	118,240	115,360	2,880
55	277,240	259,210	18,030	277,240	232,610	44,630	141,350	137,320	4,030
60	362,300	334,890	27,410	362,300	295,120	67,180	165,640	160,220	5,420

Strawman 2 – Average Age Active Member

The illustration below shows the estimated impact of charges on projected retirement values for an active member with 10 years to retirement, with a current salary of £82,000 contributions of 13% per annum, who is invested in the default option. Projections are based on a current fund value of £283,000 and are shown in current money terms (adjusted for inflation).

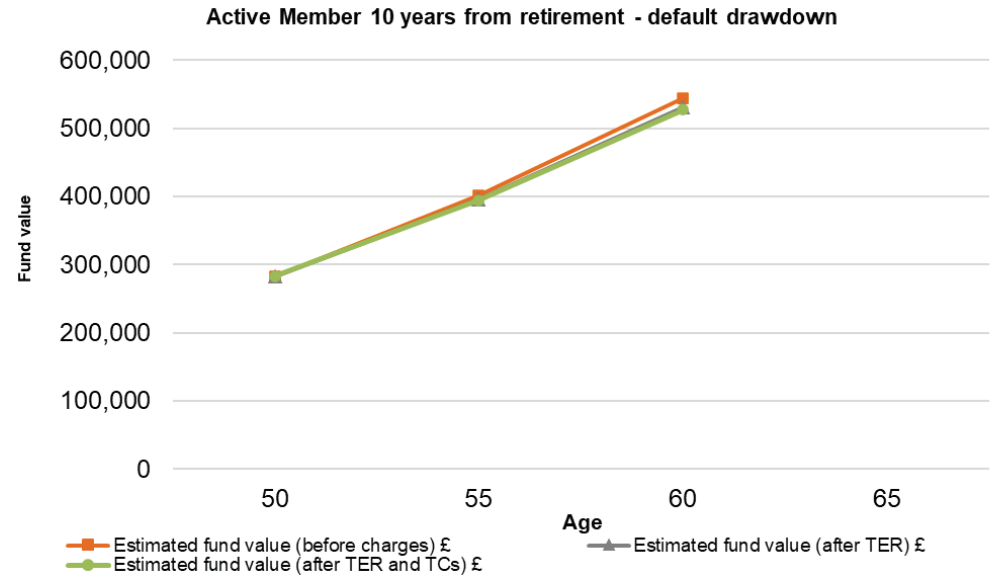


Table 5 – Illustration for Average Active Member

Age	Default Strategy			Aon Managed Active Global Equity Fund			Aon Managed Long Term Inflation Linked Fund		
	Estimated fund value (before costs) £	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)
50	283,000	283,000	0	283,000	283,000	0	283,000	283,000	0
55	400,720	394,370	6,350	409,550	394,360	15,190	351,330	348,830	2,500
60	543,270	526,930	16,340	566,420	526,920	39,500	423,140	417,460	5,680

Strawman 3 – Average Age Deferred Member

The illustration below shows the estimated impact of charges and transaction costs on projected retirement values for an example deferred member with 10 years to retirement, who is invested in the default option. Projections are based on a current fund value of £118,000 and are shown in current money terms (adjusted for inflation).

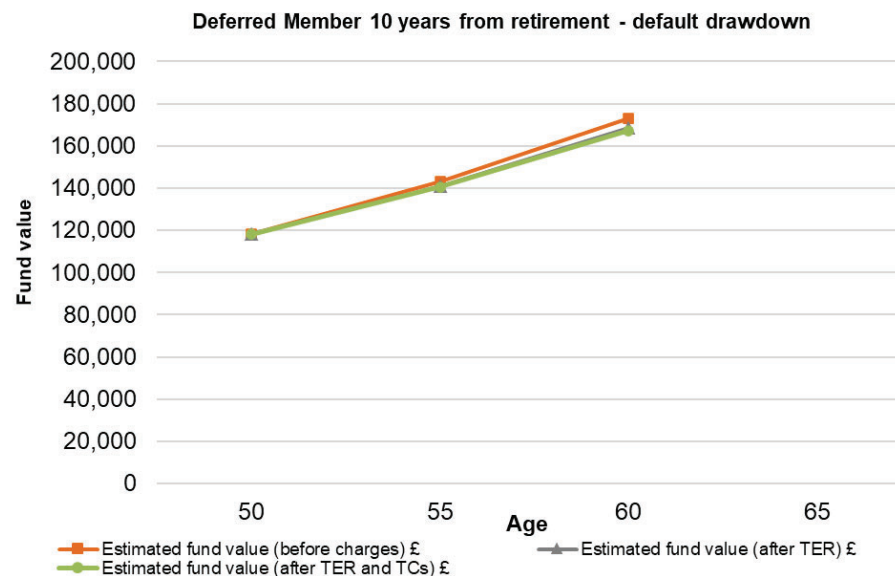


Table 6 – Illustration for Average Deferred Member

Age	Default Strategy			Aon Managed Active Global Equity Fund			Aon Managed Long Term Inflation Linked Fund		
	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)	Estimated fund value (after costs) (£)	Effect of costs (£)	Estimated fund value (before costs) (£)
50	118,000	118,000	0	118,000	118,000	0	118,000	118,000	0
55	142,890	140,460	2,430	146,280	140,460	5,820	123,990	123,030	960
60	173,040	167,190	5,850	181,330	167,180	14,150	130,280	128,280	2,000

Members are advised to consider both the level of costs and charges and the expected return on assets (i.e. the risk profile of the strategy) in making investment decisions and not in isolation, especially as some funds (like the Long term Inflation Linked Fund) may not keep track with inflation but could be appropriate as part of a broader investment strategy.

Assumptions for illustrations:

Scope	The projections used in this analysis are deterministic i.e. a single future condition is modelled in the projection. The assumptions set out below relate to the illustrations of the impact of costs and charges on member's cumulative estimated fund values, for the Chair's Statement dated 31 December 2022 and are based on the data provided by our administrators.
Return assumption	We have used the Financial Assumptions provided by Aon Investments Limited. For the avoidance of doubt, we have not used any Mortality Assumptions in producing this illustration. Assumptions are based on the Actuarial Standard TM1 guidance.

1. The assumed growth rates (gross of costs and charges) are as follows:

Fund	Assumed return (%)
Aon Managed Retirement Pathway Fund (for retirement between 2061-2063)	7.00
Aon Managed Retirement Pathway Fund (for retirement between 2031-2033)	6.50
Aon Managed Active Global Equity Fund	7.00
Aon Managed Long Term Inflation Linked Fund	3.52
Source: Aon Solutions Limited	

2. The TERs and transaction costs for the funds are shown below:

Fund	TER (%)	Transaction Costs (%)
Aon Managed Retirement Pathway Fund 2058-60	0.29	0.056
Aon Managed Retirement Pathway Fund 2031-33	0.29	0.099
Aon Managed Active Global Equity Fund	0.70	0.030
Aon Managed Long Term Inflation Linked Fund	0.13	0.025
Source: Aon Investments Limited		See Note

Note.

The transaction costs are averaged over a 4-year period based on information provided by Aon Investments Limited at a fund level. A floor of 0% pa has been used for the transaction costs if these were negative in any year to avoid potentially understating the effect of charges on fund values over time.

3. Inflation (salary increase) is assumed to be 2.5% p.a. with no allowance for real salary growth, in line with the Actuarial Standard TM1 guidance
4. Retirement is at a normal retirement age of 60 for active members and deferred members.
5. Total contributions are 13% of pensionable pay, based on average member contributions for the year ending 31 December 2022.

The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.

The AT&T Global Pension AVC Section

Projected pension pot in today's money:

- Starting Fund £40,000.
- No further contributions.

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 are for a representative selection of the funds members may invest in designed to reflect the range of projected returns and charges for the available funds.

Fund choice								
Years	Aquila 50/50 Global Equity Index ZP		European 2 EP		Secure 2 EP		Property 2 EP	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	41,500	41,200	41,800	41,100	39,900	39,500	41,400	40,900
3	44,800	43,800	45,900	43,400	39,700	38,500	44,600	42,800
5	48,400	46,600	50,300	45,900	39,500	37,600	47,900	44,800
10	58,700	54,500	63,400	52,800	39,000	35,300	57,500	50,200

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 63
3. Inflation is assumed to be 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rates for each fund are:
 - a. Aquila 50/50 Global Equity Index ZP: 3.9% above inflation
 - b. European 2 EP: 4.7% above inflation
 - c. Secure 2 EP: 0.3% below inflation
 - d. Property 2 EP: 3.6% above inflation
6. The charges assumed for each fund are the current charges as shown in the Chair's Statement.
7. The transaction costs assumed for each fund are the average of the transaction costs over the last four Scheme Years as shown in the Chair's Statement for each year.

The AT&T Global Transfer Scheme

Projected pension pot in today's money.

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.

Fund choice								
Years	Aquila Over 15 Year UK Gilt Index ZP		European 2 EP		Aquila UK Equity Index ZP		Property 2 EP	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	13,000	13,000	13,600	13,400	13,500	13,400	13,400	13,300
3	13,200	13,200	14,900	14,500	14,500	14,500	14,400	14,100
5	13,400	13,400	16,300	15,600	15,700	15,600	15,500	14,900
10	13,900	13,900	20,600	18,800	19,100	18,900	18,600	17,200

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 63
3. The starting pot size is assumed to be £13,000.
4. Inflation is assumed to be 2.5% each year.
5. It is assumed that no further contributions are made.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates for each fund are:
 - a. Aquila Over 15 Year UK Gilt Index ZP: 0.7% above inflation
 - b. European 2 EP: 4.7% above inflation
 - c. Aquila UK Equity Index ZP: 3.9% above inflation
 - d. Property 2 EP: 3.6% above inflation
8. The charges assumed for each fund are the current charges as shown in the Chair's Statement.
9. The transaction costs assumed for each fund are the average of the transaction costs over the last four Scheme Years as shown in the Chair's Statement for each year.

The AT&T Global Pension Scheme

Projected pension pot in today's money.

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.

Fund choice								
Years	Aquila Over 15 Year UK Gilt Index ZP		European 2 EP		Aquila UK Equity Index ZP		Property 2 EP	
	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	32,200	32,200	33,500	33,200	33,200	33,200	33,100	32,900
3	32,700	32,600	36,700	35,700	35,900	35,800	35,600	34,800
5	33,200	33,100	40,300	38,500	38,800	38,600	38,300	36,800
10	34,400	34,200	50,700	46,400	47,000	46,600	46,000	42,500
15	35,700	35,400	63,900	55,900	57,000	56,300	55,100	49,000

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 63
3. The starting pot size is assumed to be £32,000.
4. Inflation is assumed to be 2.5% each year.
5. It is assumed that no further contributions are made.
6. Values shown are estimates and are not guaranteed.
7. The projected growth rates for each fund are:
 - a. Aquila Over 15 Year UK Gilt Index ZP: 0.7% above inflation
 - b. European 2 EP: 4.7% above inflation
 - c. Aquila UK Equity Index ZP: 3.9% above inflation
 - d. Property 2 EP: 3.6% above inflation
8. The charges assumed for each fund are the current charges as shown in the Chair's Statement.
9. The transaction costs assumed for each fund are the average of the transaction costs over the last four Scheme Years as shown in the Chair's Statement for each year.

Value for Members assessment

The Administration Regulations requires the Trustee to assess charges and transactions costs borne by DC section and AVC members and the extent to which those charges and costs represent good value for money for members.

[Regulation 25(1)(b), The Occupational Pension Schemes (Scheme Administration) Regulations 1996]

The Trustee carry's out an annual assessment of the services that members pay for and whether these provide represent good Value for Members. Working with our professional advisers, we have established an assessment framework that considers the following areas where benefits can be financial or non-financial in nature. A separate statement setting out the Value for Members assessment is available on request from the Plan Administrators.

Plan governance

Governance covers the time spent by the Trustees to ensure the Plan is run in compliance with the law and regulation, taking account of the interests of Plan members. The Trustees believe that good governance is key to ensuring that a framework is in place and being used to help deliver better member outcomes. We regularly review and update our governance processes and procedures to make sure that these meet industry best practice standards and we are supported by our professional pension consultants and legal advisers, who attend each Trustee Meeting.

The Board of Trustees is composed of Trustee Directors who are nominated by the employer and the members. Details of our Board are given in the Trustee Report & Accounts. None of the current Member Nominated Director positions was due for election in 2022 and the next election is due in June 2025.

Administration

Capita provides administration services to the Plan and holds the following accreditations, which provide additional independent assurances of their commitment to working to the highest standards:

1. ISO 9001 – Quality Management
2. AAF 01/06 and ISAE 3402 – accounting audit
3. ISO 14001 – Environmental Management
4. Investor in Customers (IiC)
5. ISO 27001 – Information Security Management
6. Investors in People (IiP)
7. ISO 20000 – IT Service Management
8. Plain English Campaign
9. ISO 22301 – Business Continuity Management
10. Corporate members of the Pension Administration Standards Association (PASA).

We did not experience any significant administration issues in 2022. The Trustees consider the administration of the Plan to be effective and although a small number of cases exceeded the agreed KPI standards, the majority of these were resolved shortly afterwards

There was one complaint regarding Plan administration in 2022.

Investments

In addition to the default investment option in the Aon Retirement Pathway Funds, the Plan offers members a range of funds covering different risk profiles and asset classes that they may use to create their own investment portfolios. The range of funds is designed by AIL to cater for the different needs that different members may have, without confusing people with too many options. The fund managers are selected using the expertise and research capabilities of Aon's Global Investment Management team.

Plan charges

The total charge (TER) for a default investment option is capped by law at 0.75% p.a. The overall TER on our default option funds varies from 0.25% to 0.29% p.a. and this charge is capped at 0.38% p.a.

We use data provided by the Department of Work and Pensions (DWP) to assess how our default investment option charges compare to similar pension schemes. More detail is given in our Value for Members Report, however, to summarise:

Total no. of members	Average annual on-going charge (%)		
	Contract-based (GPP)	Unbundled Trust-based	AT&T 2001 Plan
1,000+	0.41	0.49	0.29

Source: DWP Pension charges survey 2020: charges in defined contribution pension schemes

Member communications

Communication Working Group

The Trustee formed a Communication Working Group in 2022, to consider the 2001 Plan membership and agree a communication strategy, objectives and programme for 2023/24. The Working Group has held several meetings and worked with the Company and Aon's Communication practice to develop the strategy and target some initial communications at all active members.

The Plan provides member communications under our award winning "People like me" brand. Our literature uses a several example members to demonstrate the issues and decisions that people face at different stages in their working life. This is designed to help members make an informed decision about their contributions, investments and retirement options.

The Plan website remained live and continued to allow members access to Plan literature, such as our "People like Me" guides, online planning tools and helpful information about retirement issues. The site can be found at www.myattpension.co.uk.

Capita continued to support the AT&T pensions helpdesk (0800 121 4704 or attpensionscheme@capita.co.uk) and members also continued to enjoy access to retirement advice from a national firm of IFA's.

Summary

For the Plan year ending 31 December 2022, the Trustee's consider the charges and transaction costs levied by the Plan represent good Value for Members.

Trustee Knowledge and Understanding (TKU)

The Pensions Act 2004 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 Code of Practice 07 and in The Occupational Pension Schemes (Trustees' Knowledge and Understanding) Regulations 2006

The Trustee is required to demonstrate how the combined knowledge and understanding of the Trustee Directors, together with any advice received, enables it to properly exercise its functions as a Corporate Trustee. The Trustee Directors are required to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, the investment of scheme assets and other matters related to pension regulation, to enable them to exercise their duties with appropriate skill and due diligence.

To meet this requirement the Trustee Directors have a programme of regular training to ensure compliance with the Pension Regulator's Code of Practice. This is delivered at Trustee Meetings and a dedicated training day. In addition to this individual Trustee Directors maintain a training log that is split into the following four parts

1. Part A: Demonstrating competency / induction training:

This part records The Pensions Regulator (TPR)'s toolkit the PMI award in pension trusteeship (see note 2) and attendance at introductory / 'refresher' trustee training courses.

2. Part B: In-meeting training

This part records formal training at a Trustee meeting or during the annual Trustee training day.

3. Part C: External training / seminars / webinars

This part records any external training such as pension conferences, formal training sessions, attendance at webinars / seminars or completing education programs,

4. Part D: Unstructured training

This part records any unstructured training such as reading relevant newspaper articles/magazines, watching topical content, reading advisers' and regulatory briefing notes/publications, individual research activity. In addition, the Trustees receive relevant training on pension and investment matters as required as part of each meeting. For example, in 2022 training on the nature of a buy-in and the advantages and disadvantages to members and the Trustee in taking this course of action was delivered by appropriately qualified consultants from our professional advisers.

Summary

Having reviewed the training activities completed by the Trustee Directors, the Trustee Board considers that it has met the Pension Regulator's Trustee Knowledge and Understanding (TKU) requirements and is confident that the combined experience, knowledge and understanding of the Board, together with the input from our professional advisers, enables the proper exercise of the functions required as Trustee of the AT&T Pension Scheme and the 2001 Plan.

Conclusion

The Trustee has completed a high-level assessment of our governance structure and processes for the Plan year ending 31 December 2022. This considered the reporting processes and actions that the Trustee completed, which included:

- Four Trustee meetings that were attended by our administration provider and professional advisers, who provided reporting and specialist advice. In addition, there were also several ad-hoc meetings and conference calls with our auditors and advisers.
- Additional trustee committee meetings to review the buy in investment opportunity.
- A review of each quarterly administration report from Capita Pension Solutions Limited, to monitor their delivery against the agreed service levels.
- A review of the quarterly investment reports from Aon Investments Limited, with details of individual investment fund performance, which allowed us to monitor this within our overall investment objectives framework.
- There has been a greater focus on Trustee training in 2023, as the demands of the buy in project have reduced. The Trustee Directors are conscious of the recent changes in pensions legislation and the increasing focus on trustee capabilities, and are keen to maintain their knowledge and skills.

After completing our governance assessment and considering our Value for Members report, the Trustee Board believes that the 2001 Plan is fully compliant with our legal responsibilities and with the Pension Regulator's DC Code of Practice, and that it provides members with value for money.

Signed on behalf of the Trustees of the AT&T Pension Scheme – 2001 Pension Plan

Ian Hawke, Chair of Board, AT&T Pension Scheme Trustee Limited

July 2023