

Chair's statement

Annual governance statement by the Chair of Trustees

Introduction

As the Chair of the Trustees, I have to provide you with a yearly statement which explains what steps have been taken by the trustee board, with help from our professional advisers, to meet the new governance standards. The law sets out what information has to be included in my statement and this is covered in sections 1 to 4 below.

The Trustees are committed to having high governance standards and meet regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do get in touch.

1. Default investment arrangement

The default investment arrangement is provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement which is set up by the Trustees. The Scheme was closed in April 2006 and replaced by a Group Personal Pension Plan. No new DC only contributions have been paid since that date.

Setting an appropriate investment strategy

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

The Aegon Universal Lifestyle Funds were chosen as the Scheme's default arrangement.

The Universal Lifestyle Funds aim to achieve long-term capital growth by investing in an internationally diversified portfolio, largely made up of equities. There are a number of target date funds which gradually move assets into less volatile asset classes gradually in the period before selected retirement age. The aim of this is to consolidate investment growth and to limit exposure to market fluctuations in the short-term before retirement. Currently, the funds are mainly passively managed, but offer a degree of exposure to actively managed funds.

Management of the Funds is delegated to Aegon who have control over the allocation of assets, the monitoring and control of risk, the realisation of investments and the extent to which social, environmental or ethical considerations are taken into account.

Certain members are invested in Royal London's 'Balanced Retirement Investment Strategy'. This is a lifestyle option that gradually reduces member risk as members reach normal retirement age. The BRI strategy uses the following funds:

- RLP UK Equity
- RLP Managed
- FLT Fixed Interest
- RLP Deposit

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Risks

Credit Risk – The fund invests in bonds and other types of debt. There is a risk that the organisation that has issued the debt will default on the loan.

Currency Risk – The fund invests in overseas markets so its value will go up and down in line with changes in currency exchange rates.

Third party risk – In the event that the underlying investments which the fund invests in suspend trading, Aegon and Royal London may defer trading and/or payment to investors. The value ultimately payable will depend on the amount Aegon and/or Royal London receive from the underlying investments.

Derivate risk – The fund uses derivatives to achieve its objectives. Derivatives allow a manager to buy or sell an investment at a specified future date for a specified price. This means that the fund could be exposed to addition risk if the market moves up when the manager expected it to go down or vice versa.

Interest rate risk – Interest rate changes could affect the value of bond investments. Where long term interest rates rise, the value of bonds is likely to fall, and vice versa.

Reviewing the default investment arrangement

The Trustees are expected to:

- review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every 3 years; and
- Take into account the needs of the Scheme membership when designing the default arrangement.

The Trustees will review the investment objectives and the performance of the default arrangement at least once every three years and on the advice of the Scheme's investment advisers.

The default investment arrangement was reviewed by the Trustees on 10th October 2019. The Trustees engaged a professional adviser to provide an opinion on the suitability of the default funds, the choices available to members, the performance of the existing funds and member's retirement options and process.

The review covered:

1. Suitability of investment options for members given the membership profile
2. Suitability of the current default arrangement
3. Fund choices available to members
4. Performance of existing funds
5. Members' retirement options and process

No changes were made to the arrangements as a result of the review as it was felt that the default remained suitable for the members based on 5-point assessment noted above.

The Trustees regularly monitor the performance of the default arrangement.

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Charges and transaction costs paid by members

We are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer. As you may know the employer pays for the costs of investment advice.

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

The level of charges and transaction costs applicable to the Aegon Universal Lifestyle Funds during the last scheme year were as follows. Details of these charges and costs have been provided by Aegon.

- **Annual Management Charge 1%**
This includes the product charge, fixed management fee and expenses.
- **Transaction costs 0.11%**
These costs arise when a fund manager buys or sells the underlying assets of the fund.
- **Additional Expenses 0.02%**
These include management fees and expenses that vary with the day to day costs of running the fund

The impact of charges and costs on pension funds

The table below is designed to illustrate how the charges and costs will affect a projected pension fund (in today's money).

Universal Lifestyle

Years	Before Charges	After All Charges
1	£38,246	£37,810
3	£38,246	£36,953
5	£38,246	£36,115
10	£38,246	£34,102
14	£38,246	£32,572

'Before Charges' shows the projected pension fund without any Charges applied

'After All Charges' shows the projected pension fund after all Charges are applied

Assumptions used for this illustration

- Starting age is 51 and retirement age is 65
- No future contributions are made

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- Inflation is assumed to be 2.5%
- The growth rate for the fund is 2.5%
- As the growth rate is the same as the rate of inflation, this reduces the growth rate, after making an allowance for inflation to 0%.

The charges and transaction costs applicable to the Royal London’s BRIS funds are as follows:

Royal London Policy 14902

All individuals in this policy are invested in the Balanced Retirement Investment Strategy

- **Annual Management Charge 1%**
This includes the product charge, fixed management fee and expenses.
- **Transaction Costs 0.09%**
This includes the costs incurred by the asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in

The impact of charges and costs on pension funds

The table below is designed to illustrate how the charges and costs will affect a projected pension fund (in today’s money).

Projected pension pot in today’s money				
Fund choice				
Default Fund				
Years	Value of payments made, no investment	After all charges		
		Before Charges	+ costs deducted	
1	£ 20,570	£ 20,570	£ 20,346	
3	£ 19,579	£ 21,258	£ 20,572	
5	£ 18,636	£ 21,969	£ 20,800	
10	£ 16,471	£ 23,852	£ 21,381	
15	£ 14,558	£ 25,897	£ 21,979	
20	£ 12,867	£ 28,117	£ 22,593	
25	£ 11,373	£ 30,527	£ 23,225	
30	£ 10,052	£ 33,144	£ 23,874	
35	£ 8,884	£ 35,985	£ 24,541	
40	£ 7,852	£ 39,070	£ 25,227	

‘Before Charges’ shows the projected pension fund without any Charges applied
 ‘After All Charges’ shows the projected pension fund after all Charges are applied
 The column titled ‘Value of payments made, no investment is intended to show today’s value of the initial contribution over different time periods, allowing for inflation, if the money was not invested.

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Assumptions used for this illustration

- The starting pot size is assumed to be £21,084.
- Inflation is assumed to be 2.5%
- The assumed growth rate for the fund is 4.2%
- All projections were based on information as at 1st August 2019

Royal London Policy 60025

All individuals in this policy are invested in either the Balanced Retirement Investment Strategy, the Fixed Interest Fund or the Deposit Fund

Balanced Retirement Investment Strategy

- **Annual Management Charge 0.94%**
This includes the product charge, fixed management fee and expenses.
- **Transaction Costs 0.15%**
This includes the costs incurred by the asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in

The impact of charges and costs on pension funds

The table below is designed to illustrate how the charges and costs will affect a projected pension fund (in today's money).

Projected pension pot in today's money				
		Fund choice		
		Default Fund		
Years	Value of payments made, no investment	After all charges + costs deducted		
		Before Charges		
1	£ 27,392	£ 27,819	£	27,558
3	£ 26,072	£ 27,310	£	26,548
5	£ 24,816	£ 26,810	£	25,575
10	£ 21,934	£ 25,600	£	23,296
15	£ 19,386	£ 24,444	£	21,220
20	£ 17,135	£ 23,341	£	19,330
25	£ 15,145	£ 22,288	£	17,607
30	£ 13,386	£ 21,282	£	16,038
35	£ 11,831	£ 20,321	£	14,609
40	£ 10,457	£ 19,404	£	13,307

'Before Charges' shows the projected pension fund without any Charges applied

'After All Charges' shows the projected pension fund after all Charges are applied

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The column titled ‘Value of payments made, no investment is intended to show today’s value of the initial contribution over different time periods, allowing for inflation, if the money was not invested.

Assumptions used for this illustration

- The starting pot size is assumed to be £28,077.
- Inflation is assumed to be 2.5%
- The assumed growth rate for the fund is 1.6%
- All projections were based on information as at 1st April 2020

Fixed Interest Fund

- **Annual Management Charge 0.94%**
This includes the product charge, fixed management fee and expenses.
- **Transaction Costs -0.28%**
This includes the costs incurred by the asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in

The impact of charges and costs on pension funds

The table below is designed to illustrate how the charges and costs will affect a projected pension fund (in today’s money).

Fund choice	
Fund A	
Before Charges	After all charges + costs deducted
£ 27,995	£ 27,732
£ 27,831	£ 27,055
£ 27,669	£ 26,394
£ 27,266	£ 24,813
£ 26,869	£ 23,325
£ 26,478	£ 21,928
£ 26,093	£ 20,613
£ 25,714	£ 19,378
£ 25,339	£ 18,217
£ 24,971	£ 17,125

Fund A is the Fixed Interest Fund

‘Before Charges’ shows the projected pension fund without any Charges applied
 ‘After All Charges’ shows the projected pension fund after all Charges are applied

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Assumptions used for this illustration

- The starting pot size is assumed to be £28,077.
- Inflation is assumed to be 2.5%
- The assumed growth rate for the fund is 2.2%
- All projections were based on information as at 1st April 2020

Deposit Fund

- **Annual Management Charge 0.94%**
This includes the product charge, fixed management fee and expenses.
- **Transaction Costs -0.01%**
This includes the costs incurred by the asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in

The impact of charges and costs on pension funds

The table below is designed to illustrate how the charges and costs will affect a projected pension fund (in today's money).

Fund B	
Before Charges	After all charges + costs deducted
£ 27,666	£ 27,407
£ 26,862	£ 26,113
£ 26,082	£ 24,881
£ 24,229	£ 22,048
£ 22,507	£ 19,538
£ 20,907	£ 17,314
£ 19,422	£ 15,343
£ 18,042	£ 13,596
£ 16,760	£ 12,049
£ 15,569	£ 10,677

Fund B is the Deposit Fund

'Before Charges' shows the projected pension fund without any Charges applied

'After All Charges' shows the projected pension fund after all Charges are applied

Assumptions used for this illustration

- The starting pot size is assumed to be £28,077.
- Inflation is assumed to be 2.5%
- The assumed growth rate for the fund is 1.0%

All projections were based on information as at 1st April 2020

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Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We have considered regulatory guidance.

As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of return they have delivered to members. We have also considered how the charges and transaction costs borne by members (the costs of members) compare against the services and benefits provided by the Scheme (the benefits of membership). The benefits of membership include (amongst other things): the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes; the quality of communications delivered to members; and the quality of support services and scheme governance.

We have assessed members' investment returns and overall fund performance to ensure that the transaction costs borne by the members (e.g. costs associated with investment trading) are reasonable for each fund we offer under the Scheme and the outcomes expected from investment. Market factors have been considered, noting that these will impact and vary fund cost.

Based on our assessment, and the professional advice taken during 2019, we concluded that the Scheme represents good value for members. However, the Scheme must now carry out a more detailed 'value for members' assessment and compare the costs and charges to other options on the market. Whilst the trustees considered that the scheme represented value for members, particularly in respect of the benefits and services provided, they felt it would be unlikely that the charges on the DC section, set up many years ago would be better than those available on the open market.

Wind-up of DC Section

During the year, the Trustees and the Sponsoring Employer decided to secure member benefits in an alternative arrangement in their own names as a full scheme wind-up is being considered. Having taken professional advice, the Trustees took the decision to secure pure DC benefits in policies with Aviva. Following the end of the Scheme Year, members fund values were transferred to Aviva, who issued individual policies to the members. There are no longer any DC benefits within the Scheme.

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2. Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to the 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Scheme
- transferring assets related to members into or out of the Scheme
- transferring assets between different investment within the Scheme; and
- making payments from the Scheme to or on behalf of members

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme administrator. Our Scheme administration is delivered by Broadstone.

The Trustees have a Service Level Agreement (SLA) in place with Broadstone which specified timescales for key financial transactions.

The Scheme administrator provides half-yearly reports to the Trustee Board which allows us to assess how quickly and effectively the core scheme financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

I am pleased that in the last scheme year there has been no material administration services issues which need to be reported here by the Trustees. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

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3. Trustee knowledge and understanding

The law requires the trustee board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We take our training and development responsibilities seriously.

The Trustees have working knowledge of the Deed & Rules, the Statement of Funding Principles and other relevant key documents concerning the operation of the Scheme. These documents are referred to regularly and legal advice sought in any matters of doubt.

Atkin Trustees Ltd acts as independent trustee on the Trustee Board. The employees of Atkin Trustees hold professional qualifications from the Pensions Management Institute and Institute and Faculty of Actuaries. They carry out Continuing Professional Development, as required by their governing bodies, to ensure that their knowledge of pensions is always up to date.

As a result of the training activities which have been completed by the Trustees individually and collectively as a board, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the board enables us to exercise properly our functions as the trustee of the Scheme.

Signed.....

Chairman of Trustees