Prendor Crosby Pension Plan ("the Plan")

Annual Chair's Statement regarding governance of defined contribution (DC) arrangements including additional voluntary contributions (AVCs)

This statement has been prepared by the Trustees of the Plan in accordance with the new regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how the Trustees are meeting the statutory governance standards in relation to the DC arrangements over the Plan year to 31 March 2019, in the relation to:

- the default investment arrangements
- requirements for processing core financial transactions
- assessment of charges and transaction costs
- assessment of value for members
- the requirement for trustee knowledge and understanding

Default investment strategy

Members of the Plan who do not make an explicit choice regarding the investment of their funds will be invested in a default strategy. The Trustees also make available an appropriate range of other self-select investment options, which members can utilise as an alternative to the default.

The Plan’s default arrangement is looked after by Legal and General Investment Management Limited (LGIM), using a lifestyle strategy to automatically switch assets into lower risk funds as retirement approaches. During the growth phase the lifestyle strategy invests in the LGIM 60:40 Global Equity Index Fund. As members approach their selected retirement date, their assets gradually switch over to the Over 15 year Gilt Index Fund and the Cash Fund.

This strategy provides members with an opportunity for asset growth while they are still some way from retirement, whilst accepting potentially greater volatility, and moving assets into investments expected to have lower volatility and potentially lower asset growth, as the member nears retirement. The Trustees believe this default offers the most appropriate balance between risk and reward for members who do not make an active choice to use the self-select funds for their retirement savings.

The Plan’s investment strategy, is set out in the Plan’s Statement of Investment Principles ("SIP") which governs decisions about investments. The latest SIP is attached.

The SIP was last reviewed and updated in September 2019. The Trustees, having reviewed the investment strategy of the DB section of the Fund over 2017/18, are in the process of implementing changes to the investment strategy of the DB section. They are also currently reviewing the default investment strategy and performance of the DC section of the Fund. As such, they will be looking to review and update the SIP for these changes before the end of the 2019/20 Plan year. In particular the following areas will be included in the review:

- The Trustees' investment policies on risk and return
- How the objectives of the default arrangement ensure that assets are invested in the best interests of members and beneficiaries.

Processing of core financial transactions

The administration of the DC section, including the processing of core financial transactions, is undertaken by JLT and LGIM on behalf of the Trustees.
The Trustees periodically review how JLT process the core financial transactions of the Plan. These include the investment of contributions, transfers of assets into and out of the Plan, any fund switches and payments out of the Scheme to and in respect of members. The performance of JLT is also measured against agreed service levels, which is achieved through the review of quarterly reporting from JLT. The Plan’s accounts are also audited annually by the appointed auditors Nexia Smith and Williamson.

The Trustees, having considered the above, have concluded that the Plan’s core financial transactions have been processed promptly and accurately during the Plan year.

**Assessment of charges and transaction costs**

**Member borne charges**
The Administration Regulations require the Trustees to make an assessment of charges and transaction costs borne by DC Section members and the extent to which those charges and costs represent good value for members. The lifestyle option has a maximum annual cost of 0.16%. This is below the charge cap requirement of 0.75% on default funds.

**Transaction costs**
Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are allowed for within the unit price for each of the funds. In 2017, The Financial Conduct Authority (FCA) published its policy on how asset managers must disclose transaction costs and administration charges.

The annual aggregate charges (borne by members) applied to the investment options that are available to members are set out in the table below:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Transaction cost</th>
<th>Annual Management Charge</th>
<th>Total Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus Index (now known as Multi-Asset)</td>
<td>0.020%</td>
<td>0.250%</td>
<td>0.270%</td>
</tr>
<tr>
<td>Global Equity 60:40 Index</td>
<td>-0.010%</td>
<td>0.160%</td>
<td>0.150%</td>
</tr>
<tr>
<td>UK Equity Index</td>
<td>-0.020%</td>
<td>0.100%</td>
<td>0.080%</td>
</tr>
<tr>
<td>World (ex UK) Index</td>
<td>0.000%</td>
<td>0.220%</td>
<td>0.220%</td>
</tr>
<tr>
<td>North America Index</td>
<td>-0.010%</td>
<td>0.200%</td>
<td>0.190%</td>
</tr>
<tr>
<td>Europe (ex UK) Index</td>
<td>0.010%</td>
<td>0.250%</td>
<td>0.260%</td>
</tr>
<tr>
<td>Over 15 years Gilts Index</td>
<td>-0.260%</td>
<td>0.100%</td>
<td>0.160%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.000%</td>
<td>0.125%</td>
<td>0.125%</td>
</tr>
</tbody>
</table>

Based on the component funds used for the default investment strategy, members therefore pay between 0.10% and 0.16% depending on how close they are to retirement.

**Illustration of the effect of charges**
The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a “£ and pence” illustration showing the compounded effect of costs and charges on the projected account size of representative members. As a result the Trustees have set out an illustration below which shows the projected value, over different time horizons, for two example members of the DC Section.
<table>
<thead>
<tr>
<th>Years</th>
<th>Member age 45</th>
<th></th>
<th></th>
<th>Member age 55</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current fund value £17,600</td>
<td></td>
<td></td>
<td>Current fund value £41,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Before</td>
<td>After</td>
<td>Before</td>
<td>After</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>£18,300</td>
<td>£18,300</td>
<td>£41,600</td>
<td>£41,500</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>£19,900</td>
<td>£19,800</td>
<td>£41,700</td>
<td>£41,600</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>£21,600</td>
<td>£21,400</td>
<td>£41,900</td>
<td>£41,700</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>£26,500</td>
<td>£26,100</td>
<td>£42,300</td>
<td>£41,900</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>£26,800</td>
<td>£26,200</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>£27,100</td>
<td>£26,400</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

These illustrations are intended to be an estimation of the potential effects of costs and charges on DC account sizes. The Trustees continue to work hard to ensure members are receiving good value from the DC Section, and this is covered in more detail in the next section.

**Assumptions and notes**

1. Projected pension account values are shown in today’s terms.
2. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
3. Charges and costs are deducted before applying investment returns.
4. Switching costs are not considered in the lifestyle strategy.
5. Inflation is assumed to be 2.5% each year.
6. Values shown are estimates and are not guaranteed.
7. The gross projected growth rate for the lifestyle strategy go from 6.8% to 2.7%
8. Transactions costs and other charges have been provided by L&G and cover the period 1 April 2018 to 31 March 2019.
9. The DC Section’s assumed normal retirement age is 65.

**Value for members**

The Trustees will be carrying out a formal assessment of the value delivered to DC section members before the end of the 2019/20 Plan year with input from Willis Towers Watson. At present the Trustees believe that the DC Section represents sufficient value for members, based on the following:

- The charges for the funds accessed by the DC section of 0.10% to 0.25% are all well below the statutory charge cap (0.75%).
- Members have access to a variety of asset classes and investment funds and the funds have performed in line with expectations.

The Trustees also determined that the services and features received by members and for which the Employer bears the cost, provides additional value to members.
Trustee Knowledge and Understanding (TKU)

It is a requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes, investment of assets and other matters to enable them to exercise their functions as trustees properly. The comments in this section therefore relate to the Trustee Board as a body dealing with the whole Plan and are not restricted to the DC Section.

The Trustees have in place arrangements for ensuring they take responsibility for keeping up-to-date with legislation and general developments and carry out a self-assessment of their training needs.

In addition, the Trustees regularly monitor and review the Plan’s demographics and the members’ behaviours to ensure the Plan and decisions they reach in relation to the governance of it remain fit for purpose.

Taking into account actions taken individually and collectively, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

Summary

The Trustees have reviewed and assessed the systems, processes and controls across key governance functions and are satisfied that they are consistent with those in the Pension Regulator’s:

- Code of practice for the governance and administration of DC schemes trust based schemes; and
- Regulatory guidance for DC schemes.

Before the end of the 2019/20 Plan year we will be undertaking a thorough review against the code of practice to ensure the Plan can formally evidence a level of governance that will improve the outcomes members can expect in retirement.

Mr A Mincher

Signed by the Chair on behalf of the Trustees of the Premdor Crosby Pension Plan