The Chairman’s statement regarding defined contribution ("DC") governance

Introduction
This Governance Statement sets out the information that the Trustees are required to provide by law – namely demonstrating how the Scheme’s DC benefits meet the governance standards that came into effect from 6 April 2015. It covers the period from 1 April 2018 to 31 March 2019.

This Statement has been prepared in a proportionate manner, taking into account that DC benefits only exist in the form of an underpin to the Scheme’s Defined Benefit ("DB") assets, in the form of a number of small DC protected rights only funds and a small number of “Additional Voluntary Contribution” ("AVC") funds (held with Equitable Life, Prudential and Clerical Medical).

The “default arrangement”
Given the nature of the Scheme’s DC protected rights, there are no separate assets held in respect of them. The funds are instead notionally invested alongside the Scheme’s DB assets. This in effect, therefore, constitutes the “default” fund for the DC protected rights assets. There is no life-styling strategy in place.

There is no default option for member’s AVC funds and these funds are held separately from the Scheme’s DB assets. As a result members are required to choose what funds to invest in.

Statement of Investment Principles in respect of the default arrangement
The key governance issues are addressed in the Trustees’ Statement of Investment Principles (“SIP”). Extracts from this relating to the Scheme’s invested DB assets (which in effect encompasses the “default arrangement”) are set out in italics below. The “Investment Managers” referenced below are the professional investment managers who manage the investment funds used by the Scheme – namely Legal and General Investment Management Limited and Newton Investment Management Limited. Note that from March 2018 the Trustees hold their investments on Mobius Life’s investment platform.

Aims and objectives

The Trustees’ primary investment objective is to ensure that they hold suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and the Employer, the cost of current and future obligations to the beneficiaries both in the short and long term.

The Trustees take the nature of the Scheme's liabilities into account when making decisions about the Scheme's investments. With that in mind, the Trustees have set the following specific objectives:

- To ensure the obligations to the beneficiaries of the Scheme are met.
- To earn an investment return which, in combination with the funding strategy, is sufficient to achieve over an acceptable period of time a funding level of at least 100% against the technical provisions, and to maintain the funding at this level.
- To pay due regard to the Employer's requirements with regards to the size and incidence of its contribution payments.

The Trustees’ policy is to seek to achieve the objectives through investing in a diversified portfolio of assets.

The Scheme's funding strategy is set out in the Scheme's Statement of Funding Principles.

The Statutory Funding Objectives ("SFO") requirement is the main consideration for the investment strategy.
**Investments held in the default arrangement**

As explained above, the Scheme’s DC protected rights assets are notionally invested alongside the Scheme’s DB assets. The Trustees are currently in the process of updating their SIP and once this has been completed the current high level asset allocation strategy will be described in the Scheme’s SIP:

The Trustees consider that the following distribution of assets represents a suitable overall asset allocation benchmark for the Scheme.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Benchmark asset allocation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Return seeking assets</strong></td>
<td></td>
</tr>
<tr>
<td>UK equities</td>
<td>22.5</td>
</tr>
<tr>
<td>Global equities (excluding UK)</td>
<td>22.5</td>
</tr>
<tr>
<td>Emerging market equities</td>
<td>5.0</td>
</tr>
<tr>
<td>Diversified growth funds</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong></td>
<td><strong>75.0</strong></td>
</tr>
<tr>
<td><strong>Matching assets</strong></td>
<td></td>
</tr>
<tr>
<td>Index-linked UK government bonds</td>
<td>22.5</td>
</tr>
<tr>
<td>Fixed Interest UK government bonds</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong></td>
<td><strong>25.0</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Risks**

The Trustees recognise a number of risks involved with the Scheme and keep these risks under regular review. These risks are described in the Scheme’s SIP as follows:

**Sponsor risk:**

- Will be measured by the level of ability and willingness of the Employer to support the continuation of the Scheme and to make good any current or future deficit.
- Will be managed by assessing the interaction between the Scheme and the Employer's business, as measured by a number of factors, including the creditworthiness of the Employer and the size of the pension liability relative to a number of metrics reflecting the financial strength of the Employer.

**Solvency risk and mismatching risk:**

- Will be measured through asset liability modelling, as necessary, and ongoing actuarial valuations to assess the expected development of the liabilities relative to the current and alternative investment policies.
- Will be managed through the strategic asset allocation strategy.
Manager risk:

- Will be measured by the expected deviation of the prospective return, as set out in the Investment Managers' objectives, relative to the investment policy.
- Will be managed through the Trustees monitoring the Investment Managers' actual deviation of returns relative to the objectives, changes of personnel within the organisation, alterations to investment processes and other factors (such as financial strength) supporting the Investment Managers' ongoing appointments.

Liquidity risk:

- Will be measured by the level of cash-flow required by the Scheme over a specified period.
- Together with the Scheme's administrators, the Trustees will ensure that sufficient cash is held to meet anticipated benefit payments and expenses from time to time. The Trustees will ensure that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cash-flow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment policy where possible.
- The Trustees have an investment strategy consisting of pooled investment vehicles managed by a large and experienced investment management house. The Trustees believe that the Scheme holds sufficient assets with a good degree of liquidity so that any disinvestment could be achieved quickly and cost effectively should any short term cash-flow requirements arise.

Inappropriate investments:

- Will be managed through constraints in the Investment Managers' agreements with the Trustees.
- The Trustees have obtained confirmation from the Investment Managers on their policies towards the use of derivatives. Investment in derivative instruments will only be made in so far as they contribute to a reduction of risks or facilitate efficient portfolio management and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty.

Concentration risk:

- Will be measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from for example political intervention.
- The risks associated with any potential overdependence due to utilising only a very limited number of managers will be regularly reviewed by the Trustees.
- Will be managed by regular reviews of the actual investments relative to the policy and through regular assessments of the levels of diversification within the existing policy.
- The Benchmark Asset Allocation (and the existing asset allocation), and the guidelines given to the Investment Managers, are designed to ensure that the Scheme's investments are adequately diversified.

Counterparty risk:

- The Trustees recognise that the Scheme may be exposed to counterparty risk and has reviewed and accepted the policies implemented by the Investment Managers.
Currency risk:

- The Trustees recognise that the Scheme will be exposed to currency risk via the Scheme’s investments in overseas equities.
- This has been managed by investing a proportion of the Scheme’s assets in currency hedged overseas equities.

Social, environmental or ethical considerations

The Trustees believe their main duty, reflected in their investment objectives, is to protect the financial interests of the Scheme’s members. The Trustees believe that social, environmental and ethical issues are secondary to this.

The Trustees have elected to invest predominantly in pooled funds and cannot, therefore, directly influence the social, environmental and ethical policies in which such pooled funds invest.

Where the pooled funds are managed on a passive basis, decisions regarding the selection, retention and realisation of investments are only made in order to ensure efficient tracking of indices, and social, environmental and ethical considerations are not taken into account.

The Trustees have noted the extent to which social, environmental and ethical issues are taken into account by their appointed Investment Managers in exercising their corporate governance policy.

Investing in members’ best interests

The Trustees accept that the decision on how to exercise voting rights should be left with the investment managers of the pooled funds who will exercise these rights in accordance with their respective published corporate governance policies.

These policies are provided to the Trustees from time to time and take into account the financial interests of shareholders, which should ultimately be to the Scheme’s advantage.

Reviews of the default arrangement

Over the year to 31 March 2019 the Trustees slightly amended the holdings within the matching assets and separately within the return seeking assets (including full disinvestment from the Standard Life Global Absolute Return Strategies Fund). Since the DC protected rights only funds are notionally invested with the DB Section’s assets, this effectively represents a change to the “default” arrangement.

The Trustees receive monthly information on the performance of the default arrangement directly from the Scheme’s Investment Managers and performance is formally reviewed annually with input from the Scheme’s Investment Advisor.

The Trustees are currently considering whether it remains appropriate for the DC protected rights only funds to remain notionally invested with the DB assets.

Processing of financial transactions

The core financial transactions include investment of contributions, transfers into and out of the Scheme, switches between the different investment funds that are available, and payments out of the Scheme. The Scheme’s administrators have adopted internal control procedures that are designed to ensure that core financial transactions are processed promptly and accurately.

The Trustees receive quarterly reports from the Scheme administrators that enable them to monitor the administration service and, in particular, that agreed service levels are being met. The Trustees also review the annual administration assurance reports obtained by the Scheme administrator, which provide assurance that the internal control procedures are being followed in practice.
There are no further contributions paid to the protected rights and AVC funds.

**Charges and transaction costs**

The average Ongoing Charge Figure (equal to the annual management charges plus any additional charges) applicable to the “default arrangement” is 0.21% per annum (based on the asset allocation as at 31 March 2019). Dealing and transaction costs on the DB assets vary depending on the nature of each transaction and the Trustees consider costs before each transaction occurs.

A number of the AVC funds are invested in with-profit funds with Equitable Life, Prudential and Clerical Medical which do not have a stated annual management charge (“AMC”); the charges on these funds are reflected in the declared bonus rates.

Some members have chosen to invest in unitised funds with Clerical Medical. They have a wide range of fund choices which have differing levels of AMCs.

**An illustration of the charges levied on members**

*Below is an illustration on the effect of costs and charges met by members, valued in terms of today’s prices. The graph is based on an average member and is for illustration only, assuming:*

- a current age of 49 years old, retiring at 65 years old;
- a current pot size of £1,108; and
- no further contributions being made over the period to retirement.

*The return on assets assumption is based on 5% per annum developed market equities, 6% per annum for emerging market equities, 4.3% per annum for diversified growth funds and 1% per annum for government bonds. This gives an estimate of the absolute return on the Scheme assets of 3.9% per annum, inflation is assumed to be 2.5% per annum and fees are expected to be 0.21% per annum.*
Value for Money
The Trustees are required to assess the extent to which the charges and transaction costs set out above represent good value for members. The Trustees believe that that the charges and transaction costs represent good value for members and details of the costs are set out above. However, given the size and nature of the DC benefits within the Scheme, it would not be proportionate to undertake a detailed assessment of the value for money of the current investment options relative to their charges.

Trustees knowledge and understanding
The Trustees are required to have appropriate levels of Trustees knowledge and understanding. This is achieved in a number of ways including:

- Regular review of knowledge and understanding and associated training needs at Trustees meetings.
- Appropriate training undertaken at or outside of regular Trustees meetings.

The Trustees have also appointed professional advisers who provide advice and support, which means that the Trustees are able properly to exercise its function as Trustees of the Scheme.

Simon Waddington
Chair of Trustees

30 September 2019