

# THE R&A GROUP SERVICES LIMITED PENSION SCHEME DEFINED CONTRIBUTION ('DC') SECTION

## CHAIR'S ANNUAL GOVERNANCE STATEMENT

### Introduction

I am pleased to present the Trustees' Statement of Governance, covering the period 1 January 2019 to 31 December 2019.

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996 No. 1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015 No. 879).

This Statement covers five key areas:

1. The investment strategy relating to the Scheme's default arrangement;
2. The processing of core financial transactions;
3. Charges and transaction costs within the Scheme;
4. Value for members assessment; and
5. The Trustees' compliance with the statutory knowledge and understanding ("TKU") requirements.

The Scheme is a hybrid pension arrangement comprised of a Defined Benefit Section and a Defined Contribution Section. For both sections, both the Company and members paid monthly contributions until 31 December 2018.

From 1 January 2019, pension provision for former active members of the Defined Contribution Section of the Scheme is provided by the Aviva Master Trust. The Trustees, following consultation with the Company, undertook a bulk transfer without consent to the Aviva Master Trust of the DC Section assets in December 2019.

As at 31 December 2019, the only remaining Defined Contribution ("DC") benefits in the Scheme were held with Scottish Widows. The "DC Only" proportion of these assets was transferred to the Scheme in 1993 and is predominately held in the Scottish Widows With-Profits fund. There are also Additional Voluntary Contributions ("AVCs") funds held within the Scheme.

The term 'defined contribution' means that the value of a member's benefits on retirement is not known in advance and is not guaranteed, but is dependent on factors such as the amount of contributions paid in, investment returns earned and expenses incurred. The way in which members choose to withdraw their benefits will also have a bearing on their financial outcomes during retirement. The disclosures in this Statement relate entirely to the Defined Contribution Section and include those required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement will soon be made available at [www.randa.org/](http://www.randa.org/).

## **1. The default investment strategy for the DC Section of the Scheme**

There is no longer a default arrangement for the purposes of the Occupational Pension Scheme (Charges and Governance) Regulations 2015, because the Scheme is not used as a qualifying scheme for automatic enrolment purposes.

The DC Section's previous default arrangement was transferred during the bulk transfer without consent to the Aviva Master Trust. It invested 100% of members' assets in a passive Global Equity fund (60% in UK and 40% in overseas equities) up to 10 years prior to normal or selected retirement age, at which point the assets were gradually switched into a proportion of a Gilt fund and Cash fund. At normal or selected retirement age, members' assets were invested 75% in the Gilt fund and 25% in the Cash fund.

The last review of the default investment arrangement and wider fund range was carried out in 2016. In 2018, a decision was reached to close the Scheme to new contributions with effect from 31 December 2018. The DC Section of the Scheme was transferred to a Master Trust on 4 December 2019. During the Scheme year a review of the performance of the default investment arrangement was not undertaken, however prior to this a performance review was carried out bi-annually.

### Statement of Investment Principles

In accordance with the Administration Regulations, the Trustees have appended (under Appendix A) the latest copy of the Statement of Investment Principles (the "SIP"), incorporating the default SIP, prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 and regulation 2 / regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005, dated September 2019.

## **2. The processing of Scheme core financial transactions**

As required by the Administration Regulations, the Trustees must ensure that "core financial transactions" are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Scheme by members and their employer(s);
- Transfers into and out of the Scheme;
- Switches of members' investment between different funds within the Scheme; and
- Payments from the Scheme to or in respect of members/beneficiaries (e.g. payment of death benefits).

The Scheme's administration is outsourced to Mercer Limited. As part of that model, the Trustees have agreed timescales with Mercer Limited for the processing of all member-related services, including core financial functions such as benefit quotations, investment switches and investment of contributions. These timescales are well within any applicable statutory timescale. The Trustees review this through the administration reports produced by Mercer Limited annually which provide information to the Trustees on how promptly and accurately transactions and members enquiries are dealt with.

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The expected service standards are:

Task	Service Level Agreement	Comment
Transfer out quote	20 working days	
Transfer in quote	10 working days	Relies on receipt of all documentation
Retirement quotation	11 working days	
Death quotation	2 working days	
Investment change	5 working days	

The Trustees recognise that delay and error can cause significant losses for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future outcomes. We therefore operate measures and controls aimed at ensuring that all financial transactions (such as investment of contributions and switches between funds) are processed promptly and accurately.

Core financial transaction	Key internal control
Investment of monthly contributions following receipt by Trustees	<b>Promptness</b> <ul style="list-style-type: none"> <li>Administrator operates a 5 day cycle for investing contributions following receipt of clean data from the Company (as opposed to 19th / 22nd permitted by legislation, if paid electronically).</li> </ul>
	<b>Accuracy</b> <ul style="list-style-type: none"> <li>Monthly contribution cycle includes the administrator sending the Company a monthly reconciliation email to either confirm that the data and monies received match or not and any required action.</li> </ul>
Investment switches requested by members	<b>Promptness</b> <ul style="list-style-type: none"> <li>Administrator's SLA for member-initiated switching investments is 5 working days from date of request.</li> </ul>
	<b>Accuracy</b> <ul style="list-style-type: none"> <li>All switches are reconciled by administrator.</li> <li>Members are notified when a member-initiated investment switch is completed.</li> </ul>
Payment of benefits to members, including retirements, transfers and death benefits	<b>Promptness</b> <ul style="list-style-type: none"> <li>SLAs for core benefit transactions (retirements, deaths and transfers) help ensure that member wishes are known well in advance of benefit payment date.</li> <li>Annual appraisal of common data helps ensure that member data is accurate, reducing the likelihood of delay from data gaps.</li> </ul>
	<b>Accuracy</b> <ul style="list-style-type: none"> <li>Administrator operates peer review system for all benefit calculations.</li> <li>Data accuracy is subject to regular evaluation and updating.</li> </ul>

Other controls that address the promptness and accuracy of core financial transactions include:

- The administrators record all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. They must disclose annually to the Trustees their performance against these agreed timescales. The Trustees consider these disclosures at their November meeting. Furthermore, there are regular calls between the administrators and the Company's HR department, on behalf of the Trustees, to resolve any issues.

- The Trustees request additional disclosures on a spot-check basis in respect of transactions and benefit processing activity that have not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures.
- The Scheme's Risk Register outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and possible mitigation techniques for each risk. The Register is monitored and reviewed on a regular basis.

In addition, the Scheme Auditor, Ernst & Young LLP, conducts spot-checks of the accuracy of financial transactions as part of its annual audit of the Scheme's Report and Accounts.

Based on the above, the Trustees are satisfied that the Scheme's core financial transactions have been processed promptly during the period to which this Statement relates.

### **3. Charges and transaction costs**

As required by the Administration Regulations, the Trustees are required to report on the member-borne charges and transaction costs for the investments used in the DC Section of the Scheme, as well as AVCs, and assess the extent to which the charges and costs represent good value for members. The Regulator prescribes the content (including illustrations) in this section, over which the Trustees have little discretion.

#### Charges and Transaction Costs

The Company currently meets administration, member communication and advisory costs associated with operating the Scheme.

The Scheme provides details of the costs borne by members in two forms: the annual management charge ("AMC") and total expense ratio ("TER"). The AMC is the fee applied by the investment manager for managing the individual funds; the TER comprises the AMC and additional fund expenses ("AFEs"), for example, custody costs where applicable. Charges are higher for actively managed funds.

The Scheme complied with regulations on charge controls introduced from April 2015. Specifically, all of the funds in the Scheme's default investment arrangement had a combined total expense ratio that was well below the charge cap of 0.75% p.a. of savings.

Following the bulk transfer of the DC Section to the Aviva Master Trust, the fund now most commonly used by members is the Scottish Widows Conventional With-Profits fund. There is no explicit annual management charge under this With-Profits fund.

For the range of alternative funds available, excluding the conventional With-Profits fund, annual management charges are around 0.91% p.a. to 1.48% p.a. of savings.

In addition to the investment managers' expenses included in the TER, investment funds are subject to other implicit costs, such as those associated with trading a fund's underlying

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securities, commissions and stamp duty. These expenses are not explicitly deducted from the fund but are captured by a reduction in investment returns.

The table below summarises charges and transaction costs of the funds currently used in the Scheme as at 31 December 2019.

Fund Name	AMC (% p.a.)	TER (% p.a.)	Transaction Costs Total (%)
<b>DC Only</b>			
Scottish Widows Conventional With-Profits	*	*	0.20%
<b>AVCs</b>			
Scottish Widows Unitised With-Profits	**	**	0.20%
Scottish Widows Consensus	0.875%	0.958%	0.12%
Scottish Widows Mixed	0.875%	0.908%	0.17%

Source: Scottish Widows. Fees and transaction costs are as at 31 December 2019

\* TERs do not apply to the Conventional With-Profits fund

\*\* There is an equivalent charge for With-Profits units, which Scottish Widows currently expect to be at a yearly rate of about 1.000%

The table below summarises charges and transaction costs of the other funds used in the DC Section of the Scheme during the Scheme year to 31 December 2019. The assets held in these funds were bulk transferred in December 2019 and the funds are no longer used by the Scheme.

Fund Name	AMC (% p.a.)	TER (% p.a.)	Transaction Costs Total (%)*
R&A Active Global Equity	0.650%	0.707%	0.093%
<b>BlackRock Aquila 60/40 Global Equity Index</b>	0.125%	0.132%	-0.007%
<b>BlackRock Aquila Over 15 years UK Gilt Index</b>	0.125%	0.129%	-0.031%
Aberdeen Sterling Government Bond	0.300%	0.400%	-0.019%
Aberdeen Corporate Bond	0.400%	0.530%	0.031%
<b>BlackRock Sterling Liquidity</b>	0.165%	0.165%	0.016%

\*Transaction costs information for previous funds is as at 30 September 2019.

The funds in bold were used in the Scheme's default arrangement.

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In the context of a DC pension scheme, transaction costs arise from the buying and selling of assets when members buy and sell units of funds or when managers trade within pooled funds. These costs of manager trading are borne by members. Transaction costs are those which members may incur when switching their investments between the investment funds that are available.

In reporting these transaction costs, the Trustees confirm that the guidance provided by the Financial Conduct Authority regarding calculations and disclosures of transaction costs was followed. The Trustees received transaction cost information from Scottish Widows, which is available to members on request.

The transaction costs provided by Scottish Widows, as set out in the tables above, are calculated using the 'slippage cost' methodology. This method looks at the change in the value of an investment between the time the decision to buy or sell the investment is taken and the time that the transaction is actually executed. As the value of the investments can increase or decrease, this means that the transaction costs identified by this method can be positive or negative.

### Reporting Costs and Charges

Based on statutory guidance and in accordance with the regulatory requirements, the Trustees have prepared the following illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot.

The illustrations below take into account the savings pot size; the real terms investment return gross of costs and charges; adjustments for the effect of costs and charges; and the investment horizon.

To make this representative of the membership, the Trustees have based the illustrations on the demographics of the remaining members in the Scheme. The illustrations shown below are based on the median age of members, 58 years old, and a median pot size of £4,000. As the Scheme closed to contributions on 31 December 2018 there are no assumed contributions. Annual inflation is assumed to be 2.5% per year.

Where transaction costs return a negative value, it is prudent to reflect this as 0% within the illustration as it is unlikely that members will gain in every year of their investment term.

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**Typical Member (aged 58)**

Year End	Conventional With-Profits		Unitised With-Profits		Consensus		Mixed	
	Before charges (£)	After charges (£)	Before charges (£)	After charges (£)	Before charges (£)	After charges (£)	Before charges (£)	After charges (£)
1	4,088	4,080	4,068	4,019	4,085	4,041	4,087	4,043
2	4,178	4,162	4,137	4,039	4,172	4,082	4,176	4,086
3	4,270	4,245	4,208	4,058	4,260	4,124	4,267	4,130
4	4,365	4,330	4,280	4,078	4,351	4,166	4,359	4,175
5	4,461	4,416	4,352	4,098	4,443	4,209	4,454	4,219
6	4,559	4,505	4,427	4,118	4,537	4,252	4,551	4,265
7	4,660	4,595	4,502	4,138	4,634	4,295	4,650	4,311

**Notes**

1. Projected pension pot values are in today's terms i.e. they represent the value of the funds in 2019 and have not been adjusted for the effect of price inflation.
2. Projections are estimates and are not guaranteed
3. The expected gross return above inflation, TERs and transaction costs, provided by Scottish Widows for each fund, are as follows:
  - A. Conventional With-Profits: Return: 2.0% per year, TER: 0.0%, Transaction Costs: 0.20%
  - B. Unitised With-Profits: Return: 1.5% per year, TER: equivalent charge of 1.0%, Transaction Costs: 0.20%
  - C. Consensus: Return: 2.0% per year, TER: 0.96%, Transaction Costs: 0.12%
  - D. Mixed: Return: 2.0% per year, TER: 0.91%, Transaction Costs: 0.17%

Although other funds were available to members during the Scheme year, as these funds were no longer available at the Scheme year-end, they have not been included in the illustrations.

**Value for Money Assessment**

In accordance with Regulation 25(1)(b), the Trustees undertake an annual review of the charges and transaction costs incurred by members in order to ascertain whether or not the DC and AVC arrangements in place represent good value for members, relative to peers and alternative arrangements that are available. The last review was undertaken in June 2020 for the period 1 January 2019 to 31 December 2019.

There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

The Trustees are committed to ensuring that members receive good value from the Scheme. Underpinning this assessment is the Trustees' belief that value is about using the resources at their disposal effectively to help members achieve a good outcome for life after work. In addition, while some measures of value should be scrutinised carefully over the short-term (for example, the performance of the Scheme administrator), the Trustees believe that others, such as the suitability and performance of investment funds, span several years.

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In conjunction with their professional advisers, the Trustees undertook a value for money assessment, which covered the following aspects:

- Investment charges for the default and self-select options benchmarked against comparable funds;
- Transaction costs;
- Net of fees investment performance; and
- Investment fund range and ratings.

The review concluded that the Scheme's overall benefits represent **reasonable value for money** in comparison to the costs payable by members. The reasons underpinning this conclusion include:

- Benchmarking by our advisers has shown investment charges range from poor to good value when compared against peer funds.
- The funds used in the default lifestyle arrangement on the whole met their performance objective, matching the underlying benchmark returns within acceptable tolerance ranges.
- The Scheme's default investment arrangement complied comfortably with the charge cap of 0.75% per annum (at 0.125% per annum in the growth phase).
- The non-default funds, which were subsequently bulk transferred to the Aviva Master Trust, provided reasonable value to members based on assessment of costs, although performance had been below target over a five year period.
- The members are also in receipt of additional benefits that are paid for by the Company, for example:
  - Ongoing oversight and review of the default investment strategy and the DC fund range;
  - The efficiency of the administration processes and the Trustees' and Company's governance of the services;
  - The wide-ranging support and governance of the Scheme from the Trustees, the Company and the Trustees' professional advisers.

#### **4. Trustees' Knowledge and Understanding (TKU)**

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding that, together with professional advice available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

The Trustees assess their training needs annually in light of their business plan priorities and keep a training log.

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The table below shows how these requirements have been met during the year.

Requirement	How met
Trustees must describe how, through the scheme year, the trustees have demonstrated a working knowledge of the trust deed and rules.	The Trustees are conversant with, and have demonstrated a working knowledge of, the Trust Deed and Rules. During the Scheme year a member of the Scheme made a request that required the Trustees to seek legal advice and review their Trust Deed and Rules in order to make a decision.
Trustees must describe how, through the scheme year, the trustees have demonstrated a working knowledge of the current SIP.	The Trustees are conversant with, and have a working knowledge of, the current SIP, which was recently updated on September 2019.
Trustees must describe how, through the scheme year, the trustees have demonstrated a working knowledge of all documents setting out the trustees' current policies.	The Trustees are conversant with, and have demonstrated a working knowledge of, the Scheme documents. With support from their advisers, Mercer Limited, Scheme documents are maintained in line with current legislation. The Trustees are made aware when updates are required. The Risk Register is monitored and reviewed on a regular basis.
Trustees must describe how, through the scheme year, the trustees have demonstrated that they have sufficient knowledge and understanding of the law relating to pensions and trusts.	The Trustees' professional advisers attend all formal meetings and give the Trustees an overview of market and legislative developments, including the Trustees' duties and requirements for strong governance. The Trustees also consult with their legal advisers on changes to the law relating to pensions and trusts. In addition, the Trustees may request specific training on any relevant aspect ahead of any Scheme reviews or new legal requirements. This provides the Trustees with knowledge and understanding of the law relating to pensions and trusts.
Trustees must describe how, through the scheme year, the trustees have demonstrated that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes.	<p>The Trustees regularly review their training needs to ensure that any new needs that arise are identified and that a plan is put in place to address them.</p> <p>During the Scheme year, the Trustees received training on:</p> <ul style="list-style-type: none"> <li>• ESG considerations (August 2019);</li> <li>• Transaction costs and ongoing charges (April 2019); and</li> <li>• The TPR Annual statement and mortality concentration risk (April 2019)</li> </ul> <p>This has provided them with knowledge and understanding of these areas relating to the funding and investment of occupational pension schemes.</p>

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<p>Trustees must describe how, through the scheme year, the trustees have demonstrated that their combined knowledge and understanding, together with available advice, enable them to properly exercise their functions.</p>	<p>The Trustees receive professional advice from their professional advisers to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules. The relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers. The Trustee board contains trustees with wide ranging skills and experience.</p> <p>The advice received by the Trustees, along with their own experience and combined knowledge, allows them to properly exercise their function as Trustees.</p> <p>The Company and the Trustees' advisers who attend each Trustee meeting are available to support the Trustees at any time during the year and answer any queries or concerns they may have.</p>
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The Trustees of the Scheme will also on an ongoing basis review and assess whether their systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.

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**Chair's declaration**

I confirm that the above Statement has been produced by the Trustees of the R&A Group Services Limited Pension Scheme.

Signature: 

Name: ANTHONY NEIL ANDREWS

**Chair of the R&A Group Services Limited Pension Scheme**

Date: 23 JULY 2020

# THE R&A GROUP SERVICES LIMITED PENSION SCHEME

## Statement of Investment Principles

### 1. INTRODUCTION

The Trustees of The R&A Group Services Limited Pension Scheme (“the Scheme”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and,
- Subsequent legislation.

As required under the Act the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer Limited (“Mercer”). The Trustees in preparing this Statement have also consulted the Sponsoring Employer, in particular on the Trustees’ objectives.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on expert advice and is driven by their investment objectives. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment management and described in Section 3.

The investment objectives and strategies for both the Defined Benefits (“DB”) and Defined Contribution (“DC”) sections are set out in Section 2.

### 2. INVESTMENT OBJECTIVES AND RISK

#### 2.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustees have adopted the following objectives for the DB and DC sections:

##### DB section

- The Trustees’ investment policy is guided by an overall objective of achieving, over the long term, a return on the investments which is consistent with the long term assumptions made by the Actuary in determining the funding of the Scheme.
- Over the shorter term the objective is to achieve a favourable return against the benchmark detailed in Section 3.1. The Trustees believe that the investment strategy adopted for achieving this objective will also be appropriate for achieving a further objective of seeking to avoid the need for additional contributions arising from a mismatch between the assets and liabilities.

##### DC section

The Trustees recognise that members of the DC section of the Scheme have differing investment needs and that these may change during the course of members’ working lives. The Trustees regard their duty as making available a range of investment funds that will suit members’ needs through their working life. The Trustees have considered their objectives and adopted the following:

- To maximise the value of members’ expected retirement benefits, subject to taking an appropriate level of investment risk.

- To protect the value of those benefits as members approach retirement.
- To provide members with a range of investment options to enable them to tailor investment strategy to their own needs.
- To provide a default option for members who do not wish to tailor their investment strategy.
- To avoid over-complexity in investment in order to facilitate member engagement and keep administration costs to a reasonable level.

## 2.2 Risk

There are various risks to which any pension scheme is exposed. In particular the Trustees have considered the following:

### DB section

- The risk of deterioration in the Scheme's funding level.
- The risk that the day to day management of the assets will not achieve the rate of return expected by the Trustees.

The Trustees consider the total risk of the investment policy in terms of the potential impact on the level and potential volatility in the funding level and, by association, additional (or 'deficit') contributions. The Trustees have explicitly considered the interest rate and inflation sensitivity of the assets and liabilities and have implemented a Liability Driven Investments mandate with Insight Investments to reduce the mismatch between assets and liabilities in this area. The investment policy is based on the Trustees' and the Sponsoring Employer's view and tolerances with regard to these risks.

### DC section:

- The risk that low investment returns over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement benefit.
- The risk that unfavourable market movements in the years just prior to retirement can lead to a substantial reduction in the anticipated level of retirement benefit.
- The risk that the investment manager underperforms the chosen benchmark. The Trustees recognise that the use of active investment managers involves such a risk. However, they believe that this risk is outweighed by the potential gains from successful active management.
- The risks that investment returns are affected by the concentration of investment in a single asset class/country/region.
- The risk that the investment returns are affected by currency movements in overseas currencies relative to sterling over members' working lives.
- The risk that the investment profile of the default option is unsuitable for the requirements of some members.

The Trustees believe that the investment strategy outlined in this Statement is appropriate for meeting the risks outlined above. The Trustees also monitor the Scheme's investments on a quarterly basis.

## 2.3 Investment Strategy

### DB section

Following a review of investment strategy, the Trustees have determined, based on expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment managers may operate; these guidelines are set out in Section 3.

The Trustees review the appropriateness of the investment strategy on a regular basis. Such analysis enables the Trustees to assess the appropriate level of risk given the objectives and risks identified above, which are also reviewed on a regular basis and in response to any material changes to the circumstances of the Scheme and the Sponsoring Employer.

The Trustees target an annual return on the Scheme's assets in line with the actuary's assumptions and believe that the resulting asset mix is currently appropriate for controlling the risks identified in Section 2.2.

### DC section

The range of funds offered by the Scheme is designed to provide members with the opportunity to maximise long-term returns throughout their working life, with more defensive funds available to provide access to lower risk funds for those members approaching retirement or members with a lower risk appetite.

For members invested in the default option (see next section), the Trustees regularly highlight to members invested in the default lifestyling strategy that they should consider the appropriateness of their selected retirement date and that they should review the suitability of the default lifestyling strategy for their circumstances. Further the Trustees recommend that members should consider seeking independent financial advice.

The Trustees are satisfied that the spread of assets by type and the investment managers' policy on investing in individual securities within each asset type provides adequate diversification of investments. Further details of the funds provided are given in Section 3 below.

### **DC Section – Default Investment Option**

A proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC members do not make an active investment decision and are invested in the default option. The Trustees have selected a default investment option in the DC section that they believe reflects the retirement benefit option that is considered likely to be the most appropriate, for an average individual, and for members who are unable to decide how they wish to take their retirement benefits.

### Objectives of the default option

The Trustees objectives in relation to the default option, and the ways in which the Trustees seek to achieve these, are detailed below:

- To generate returns in excess of inflation during the “growth” phase of the strategy.

*The default option's growth phase structure invests 100% of members' savings in a passively managed global equity fund which invests 60% in UK equities and 40% in overseas equities. These investments are expected to provide long term growth with some protection against inflation erosion, albeit with equity market volatility.*

- To provide a strategy that reduces investment risk relative to annuity and tax free cash benefits for members as they approach retirement.

*As a member's pot grows, investment risk will have a greater impact on members' retirement outcomes. Therefore, the Trustees believe that a default option that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over a 10 year switching period from growth assets to assets designed to target a fixed annuity and tax free cash benefits.*

- To offer to members a mix of assets at retirement that is broadly appropriate for an individual to have a balance between purchasing a fixed annuity and taking cash.

*Three months prior to a member's retirement date, 75% of the member's assets will be invested in the Indexed Gilt Fund and 25% in the Indexed Cash Fund. Whilst returns from these asset classes are expected to be modest over the long term; they are employed in order to broadly match short term changes in the (explicit and implicit) costs of retirement benefits.*

#### Policies in relation to the default option

- The default option manages investment and other risks throughout a member's lifetime via a strategic asset allocation consisting of equities, bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members.
- In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.
- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. The assets are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various underlying fund managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds. Likewise, the underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees' full policies on social, environmental or ethical considerations are detailed in Section 4 of this SIP. The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the DC Section and the default option operate daily dealing cycles.
- Assets are invested mainly on regulated markets.
- The investment manager also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

Based on the Trustees' understanding of the DC Section's membership, an investment strategy that targets the purchase of an annuity and a tax-free cash lump sum (up to 25% of a members' pot) at retirement is expected to be broadly appropriate to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement savings through other formats have the option of choosing their own investment strategy.

However, in light of the pension changes that came into force in April 2015, the Trustees are currently reviewing the suitability of the default investment strategy and considering the impact of these on the DC investment options available. As part of this review, the Trustees will take account of the profile of the membership and the Trustees' view of how the membership might behave at retirement. Once this review is complete the Trustees will continue to monitor the default strategy

regularly. The Trustee will conduct a more strategically comprehensive review at least triennially, or after significant changes to the Scheme’s demographic, if sooner.

The Trustees review investment performance and risk on a quarterly basis, and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objective outlined in section 2.1 and controls the risks identified in section 2.2.

### 3. DAY TO DAY MANAGEMENT OF THE ASSETS

#### 3.1 Main Assets

##### DB section

The Trustees invest the main assets of the Scheme in pooled funds operated by four investment managers. The equity assets are split between Baillie Gifford, Veritas and Dodge & Cox. The bond assets are invested with Insight Investment Management, and the Diversified Growth Fund (“DGF”) assets are held with Baillie Gifford. The long-lease property mandate is held with M&G.

The Trustees are satisfied that the spread of assets by type and the investment manager’s policy on investing in individual securities within each type provides adequate diversification of investments. The overall investment strategy and structure is shown in the table below:

Manager	Asset Class	Benchmark %	Most Suitable Benchmark	Outperformance Target (% p.a.)
Baillie Gifford	Global Equities (Global Alpha Fund)	11.7	MSCI AC World Index	+2.0 - 3.0% p.a. (gross of fees)
Veritas	Global Equities	11.7	MSCI World Index	CPI +6.0%-10.0% p.a. (gross of fees)
Dodge & Cox	Global Equities	11.7	MSCI World Value Index <sup>(a)</sup>	+2.0%-3.0% p.a. (gross of fees) <sup>(a)</sup>
<b>Total Equities</b>		<b>35.0 <sup>(b)</sup></b>		
Baillie Gifford	Diversified Growth Fund	12.5	UK Base Rate	+4.15% p.a. (gross of fees)
<b>Total DGF</b>		<b>12.5</b>		
M&G	Secured Property Income Fund	10.0	RPI <sup>(c)</sup>	+4% p.a. (gross of fees) <sup>(c)</sup>
<b>Total Long-Lease Property</b>		<b>10.0</b>		
Insight	Long Corporate Bonds	4.0	iBoxx Sterling Non-Gilts Over 10 Years Index	+1.0% p.a. (gross of fees)
Insight	Buy and Maintain Bond Fund	8.0	Markit iBoxx GBP Collateralized and Corporates excluding Tier 1 and Upper Tier 2 Index <sup>(d)</sup>	n/a
Insight	Liability Driven Investments	30.5	Bespoke benchmark	n/a
<b>Total Bonds</b>		<b>42.5</b>		
<b>Total</b>		<b>100</b>		

(a) Dodge & Cox do not stipulate an explicit benchmark or return targets for the fund, but have stated that they would expect to outperform the MSCI World Value Index by 2-3% p.a. over a full market cycle.

(b) A split of 11 and two thirds percentage over the three equity managers. Totals may not sum due to rounding.

(c) The Fund does not have an explicit target, however the anticipated mid to long term total return is RPI +4% p.a.

- (d) *Given structural differences in composition between the Index and the Fund (including the strategic nature of holdings in the Fund in comparison with the likely on-going changes to the composition of the Index), the Fund is likely to experience prolonged periods of markedly different performance from that of the Index.*

### DC section

The Trustees offer a selection of funds which can be accessed through the Mercer Workplace Savings investment platform, operated by Scottish Widows. The platform offers a mix of funds managed by various underlying investment managers.

The choice of investment funds available is shown below:

Asset Class	Fund Name
Global Equities	R&A Active Global Equity Fund
	BlackRock Aquila Life Global Equity 60:40 Equity Index Fund
Bonds	BlackRock Aquila Life Over 15 Year UK Gilt Index Fund
	Aberdeen Asset Management Corporate Bond Plus Fund
	Aberdeen Asset Management Gilt Plus Fund
Cash	BlackRock Sterling Liquidity Fund

The Trustees believe that the range of funds offered to members is appropriate for controlling the risks set out in Section 2.2 above.

The Trustees also provide the members with a default “lifestyle” method of investment, which considers the age profile of each individual member. The table below shows the funds used in the default lifestyle strategy.

Asset Class	Fund Name
Indexed Global Equity Fund	BlackRock Aquila Life Global Equity 60:40
Indexed Gilt Fund	BlackRock Aquila Life Over 15 Year UK Gilt Index
Cash	BlackRock Sterling Liquidity Fund

### **3.2 Cash Flow and Rebalancing Policy**

All new contributions are to be invested to bring each manager’s asset allocation in line with its target, as outlined in Section 3.1 above. This will be monitored and reviewed if necessary in order to achieve the investment strategy above.

Mercer produces regular performance updates for the Trustees which monitor the current split of assets relative to the overall benchmark in Section 3.1 above. The Trustees will assess the position and, if it is felt necessary, will rebalance the assets accordingly.

### **3.3 Fee Structure**

#### DB section

The following fees apply to the DB section of the Scheme:

Manager	Asset Class	Fee (% p.a.)
Veritas	Equities	0.75
Dodge & Cox	Equities	0.60
Baillie Gifford	Equities	0.65 <sup>(a)</sup>
	DGF	0.65
M&G	Long-Lease Property	0.50 <sup>(b)</sup>
Insight	Corporate Bonds – Buy & Maintain	0.15
	Long Corporate Bonds	0.30
	Liability Driven Investments (fully funded index-linked gilts)	0.05

(a) *0.55% p.a. until 30 November 2013, under a preferential fee structure agreed with Baillie Gifford on entering the Global Alpha Pension Fund.*

(b) *The standard management fee of 50 bps of NAV per annum would apply to the gross asset value of the Fund. In addition, there are further fees paid directly by the Fund at the sub-trust level (administrator, valuer and custodian fees) which are typically c. 8bps per annum.*

## DC section

The following fees apply to the DC section of the Scheme:

Manager (s)	Asset Class	Annual Management Charge (% p.a.)	Total Expense Ratio (% p.a.)
BlackRock	Aquila Life Global Equity 60:40 Equity Index Fund	0.125	0.132
BlackRock	Aquila Life Over 15 Year UK Gilt Index Fund	0.125	0.129
BlackRock	Sterling Liquidity Fund	0.165	0.165
Aberdeen Asset Management	Corporate Bond Plus Fund	0.400	0.530
Aberdeen Asset Management	Gilt Plus Fund	0.300	0.400
Newton/Baillie Gifford	Active Global Equity Fund	0.650	0.707

*Source: Scottish Widows. Figures shown as at 25 July 2019, unless otherwise stated.*

### **3.4 Additional Assets**

Assets in respect of members' additional voluntary contributions are held in a fully insured contract with Scottish Widows.

### **3.5 Monitoring Performance**

Mercer prepares regular investment monitoring reports for the Trustees which provide an overview of the performance of the managers, the underlying funds and the Scheme as a whole. The Trustees are also kept up to date with developments at each of the managers which may impact the Scheme's investments.

The Trustees also meet the investment managers from time to time.

### **3.6 Realisation of Investments**

In general, the Scheme's underlying investment managers have discretion in the timing of the realisation of investments and consideration of the liquidity of these investments. The Trustees believe that the assets of the Scheme are capable of being realised if circumstances so require.

The Trustees are aware of the investment in the M&G Secured Income Property Fund not being as liquid as the other investments. Property is a relatively illiquid asset class in comparison to others. The Fund has a 1-month notice period for exit; although we note that selling during periods of market volatility may result in depressed pricing.

## **4. SOCIALLY RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE**

The Trustees believe that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Monitoring is undertaken on a regular basis and is documented at least annually.

Investment restrictions

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

## **Member views**

The Trustees do not explicitly consult members when making investment decisions but regularly update members via newsletters and by making a copy of the Statement of Investment Principles available on request.

## **5. COMPLIANCE WITH THIS STATEMENT**

The Trustees will monitor compliance with this Statement regularly.

## **6. REVIEW OF THIS STATEMENT**

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsoring Employer which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be in consultation with the Sponsoring Employer.

### **Date of Amendments**

Original Statement :	July 2000
First Amendment:	June 2003
Second Amendment:	December 2003
Third Amendment:	July 2005
Fourth Amendment:	December 2006
Fifth Amendment:	November 2008
Sixth Amendment:	July 2009
Seventh Amendment	June 2010
Eighth Amendment	November 2010
Ninth Amendment	July 2013
Tenth Amendment	October 2013
Eleventh Amendment	July 2015
Twelfth Amendment	June 2016
Thirteenth Amendment	November 2017
Fourteenth Amendment	November 2018
Fifteenth Amendment	September 2019