

# De La Rue Defined Contribution Pension Plan ('the Plan') Annual statement by the Chair of the Trustee for the year to 5<sup>th</sup> April 2019

# Summary

I, along with my fellow Trustee Directors, are responsible for looking after the money you and other members have invested in our Plan. This Statement confirms for the last year:

#### The Plan's default arrangement remained suitable for most members

On 20<sup>th</sup> February 2019 the Trustee carried out a review of the Plan's default investment arrangement, considering the membership profile and updated data on how members use their pension pot at retirement. The Trustee is satisfied that the overall design of the current default arrangement continues to be appropriate in meeting the long-term investment objectives of the Plan.

The Trustee monitors the performance of the default arrangement on a quarterly basis and is satisfied that the performance has been consistent with the aims and objectives of the default arrangement.

#### The Plan delivered Good Value for Members

The Charges paid by members for the Plan's default investment arrangement and other investment options ranged from 0.13% to 0.5% p.a. of the amount invested.

The Trustee carried out their annual assessment of how the Plan's charges and the services which members pay for compare to other similar schemes and plans. Members pay for investment management while the Company pays for the administration. The Trustee looked at both the quality of the investment options as well as the costs and charges members pay.

#### The action being taken by the Trustee to improve value for members

During the last year, the Trustee sought to improve the Plan's value for members by undertaking the following:

- Negotiated with Aegon (who are the Plan's administrator and also provide the investment platform) which
  led to discounts on the charges incurred by members. The new charges with AEGON reflect a significant
  improvement to the charges paid by members of the Plan and will result in better member outcomes.
- A review of the "consolidation" phase of the Plan's default lifestyle strategy (between 15 and 5 years from retirement), to consider the suitability of the BlackRock Diversified Assets Fund within the Plan's investment options.

During the next year, the Trustee will continue seeking to improve the Plan's value for members by:

- Updating the Plan's Statement of Investment Principles to reflect the Trustee's policies on responsible investment in accordance with the September 2018 Regulations;
- Continue to monitor the suitability of the investment options; and
- Continue to monitor Aegon's administration of the Plan.

#### Core financial transactions were carried out accurately, promptly and efficiently

The Trustee monitors the performance of the Plan's administration against the agreed service levels with Aegon:



- Over the 12-month period, Aegon met the agreed service standards on 94% of its work, slightly below the target service level of 95%, while there were delays in some cases throughout the year these were most pronounced in the last quarter; and
- The Trustee met with Aegon to review and consider the required action to improve performance.

Please note that on 1 July 2018 the defined contribution administration business of BlackRock Life was transferred to Aegon.

#### The Trustee has kept up-to-date with pension matters

The Trustee has an annual program of training to help maintain its knowledge of matters relating to the Plan. Last year the Trustee training included 'Responsible Investment' including climate change.

We hope this Statement helps you understand how your pension plan is run. If you have any questions on its contents, please contact the Plan's Adviser (Hymans Robertson, 20 Waterloo Street, Glasgow, G2 6DB. T: 0141 566 7642, e-mail@: <a href="mailto:delaruepension@hymans.co.uk">delaruepension@hymans.co.uk</a>).

• The rest of this Statement describes in more detail the Trustee's management of the Plan during the last year.

#### For the record

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Signed on behalf of the Trustee by:

Mike Roberts

Chair of the Trustee of the De La Rue Defined Contribution Pension Plan

Date: 26/09/19



### (a) The default arrangement

#### The main investment principles governing the default arrangement are:

- To manage the principal investment risks faced by an average member during their membership of the Plan;
- To ensure that the strategy reflects the needs and likely retirement choices of most members. The Trustee
  believes that most members will opt to use Flexible Access Income Drawdown ('FAD') during their
  retirement and take their maximum allowable tax-free cash lump sum at retirement. The strategy has been
  designed to reflect this;
- To invest in funds which are expected in the long term to deliver strong returns relative to inflation while taking an appropriate level of risk as members approach their selected retirement date;
- During the three years leading up to retirement, to gradually switch part of members pension account into
  cash reaching 25% at the point of retirement, recognising the 25% tax-free cash allowance available to
  members at retirement, whilst also helping to mitigate, to some extent, fluctuations in fund values.

The Plan's Statement of Investment Principles is appended to this Statement, in Exhibit 3.

The Trustee undertook a strategic review of the Plan's default arrangement which was completed on 20 February 2019 and a more in-depth review of the lifestyle strategy's consolidation phase during the year. The decision to focus on the consolidation phase was due to a downgrade in the rating of one of the underlying funds by our investment adviser last year.

Following the review and after consideration of the points made above, the Trustee is satisfied that the default arrangement strategy remains appropriate for most Plan members, and the performance of the default arrangement is consistent with the aims and objectives of the default arrangement, based on the following conclusions:

#### Its overall design remains appropriate for meeting the long-term investment objectives of the Plan.

- Members who do not make an explicit choice regarding the investment of their funds are by default entered
  to the 'Drawdown Lifestyle Strategy'. The Trustee has ensured that the default arrangement provides
  sufficient liquidity and diversification to meet the needs of most members.
- The lifestyle strategy begins with 100% investment in growth assets, moving into a diversified fund during
  the consolidation phase from twenty years prior to retirement, and from three years prior to retirement
  glides into a strategy designed for members who will take 25% cash at retirement and access flexible
  drawdown during retirement.
- The Trustee has decided not to make any strategic changes in the short term. This is due to the current strategy still being able to deliver on its risk and return objectives.

# The performance of the default arrangement has been consistent with the long-term investment objectives

• The Trustee monitors the performance of the default arrangement and the underlying component funds on a quarterly basis through performance reports produced by the Plan's investment advisers. Over the last 3 years to 31 March 2019 the Long-term Growth and Managed Cash funds performed within acceptable tolerances of their benchmarks as expected while the Diversified Assets Fund slightly under-performed its benchmark.



• The Trustee reviewed the BlackRock Dynamic Allocation Fund used within the Plan's Diversified Assets Fund in the consolidation phase of the default arrangement. This review was prompted by a loss of confidence in the fund's ability to meet its long-term objectives. While some concerns remain, the fund's performance relative to its peers has since improved and so the Trustee felt that a change was not warranted

#### The Plan membership characteristics have not changed materially.

- The current pre-retirement strategy targets flexible income drawdown and flexibility of choice and access, and this remains suitable for Plan members.
- Members' needs and likely benefit choices at retirement have not changed materially.
- Based on member data as of January 2019, provided by Aegon as the Plan's administrator, members are taking their pension pots as cash or transferring them out – presumably to drawdown portfolios. In most cases the withdrawals are relatively small.

As a result, it was decided that no changes to the default arrangement were needed.

The next review of the Plan's default arrangement will take place no later than 2022 or earlier if there are any significant changes in the Trustee's investment policy or the demographic profile of the members.

### (b) Charges and transaction costs

The charges and transaction costs borne by members and the Employer for the Plan's services are:

Service	By members	Shared	By the Employer
Investment management	<b>✓</b>	-	
Investment transactions	✓	-	2-
Communications		And the last	✓
Administration	-	-	✓
Governance			<b>✓</b>

The presentation of the charges and transaction costs, together with the projections of the impact of charges and costs, takes into consideration and follows the statutory guidance issued by the Department for Work and Pensions.

#### Explanation of charges

#### Charges

The charges quoted in this statement are the funds' Total Expense Ratios ('TERs'). The TER consists of a fund's Annual Management Charge ('AMC') and Operating Costs and Expenses ('OCE'). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

#### Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).



Transaction costs are considered by the fund managers when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

The Financial Conduct Authority (FCA) requires fund managers and providers to calculate transaction costs using the 'slippage method', which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs such as stockbroker commission.

The transaction costs do not include any costs members may incur from buying or selling units in the provider's funds due to the fund manager's fund price moving from a 'bid' to 'offer' basis, or vice versa.

#### Charges for the default arrangement – the Drawdown Lifestyle Strategy

The default arrangement is a lifestyle strategy (the Drawdown Lifestyle Strategy) which invests contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next.



During the year covered by this Statement the total member-borne charges for the default arrangement were in a range from 0.17% to 0.50% p.a. of the amount invested, expressed as a total expense ratio (TER). The charges for the default arrangement vary over time as follows:

Number of years to retirement	CI	narge
	% p.a.	£ per £1,000
Over 20 years	0.17	1.70
15 years	0.34	3.35
3-10 years	0.50	5.00
At retirement	0.41	4.08

Source: AEGON

The average charge for the default arrangement was 0.29% p.a. over a period of 40 years.

The table in Exhibit 1 gives the charges for each fund used by the default arrangement.

The Plan is a qualifying scheme for auto-enrolment purposes. During the year covered by this Statement, the member-borne charges for the default arrangement complied with the 0.75% charge cap.

#### Charges for the investment options outside the default arrangement

As an alternative to the default Drawdown Lifestyle Strategy, members of the Plan can self-select one of the two alternative lifestyle strategies:



- The Cash Lifestyle Strategy; or
- The Annuity Lifestyle Strategy.

The lifestyle options outside the default arrangement also invest contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

Members of the Plan can self-select across any of the five fund options:

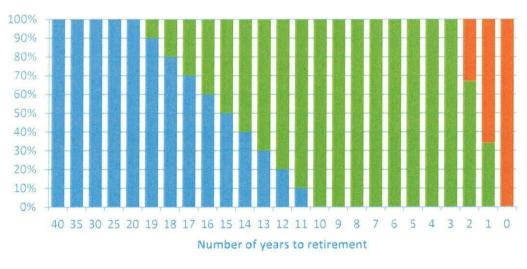
- Long Term Growth Fund;
- Diversified Assets Fund:
- Managed Cash Fund;
- Managed Defensive Fund; and
- Managed Inflation-Linked Defensive Fund.

Details of each of the self-select funds and the three lifestyle strategies are set out in the "Investment Options" leaflet and are detailed in the Plan's Statement of Investment Principles appended to this Chair's Statement.

The fee ranges for the two alternative lifestyle strategies are outlined below.

#### Cash Lifestyle Strategy

For the lifestyle strategy targeting full cash withdrawal at retirement the total charges were in the range of 0.13% to 0.50% p.a. of the amount invested, expressed as a total expense ratio (TER).



■ Long Term Growth Fund	■ Diversified Assets Fund	Managed Cash Fund
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Number of years to retirement	CI	narge
	% p.a.	£ per £1,000
Over 20 years	0.17	1.70
15 years	0.34	3.35
3-10 years	0.50	5.00
At retirement	0.13	1.30

Source: AEGON

The average charge for the Cash Lifestyle was 0.28% p.a. over a period of 40 years.



#### Annuity Lifestyle Strategy

For the lifestyle strategy targeting annuity purchase at retirement, the total charges were in the range of 0.14% per annum to 0.50% p.a. of the amount invested, expressed as a total expense ratio (TER).



■ Long Term Growth Fund ■ Diversified Assets ■ Managed Defensive ■ Managed Cash Fund

Period to retirement	Cr	narge
	% p.a.	£ per £1,000
Over 20 years	0.17	1.70
15 years	0.34	3.35
10 years	0.50	5.00
5 years	0.32	3.20
At retirement	0.13	1.30

Source: AEGON

The average charge for the Annuity Lifestyle was 0.25% p.a. over a period of 40 years.

#### Self-select funds

The charges for the individual self-select funds offered outside the default arrangement and other lifestyle options were in a range from 0.13% to 0.50% during the last year.

The table in Exhibit 1 gives the charges for each fund used in the alternative lifestyle options and available as individual self-select funds.

#### Transaction costs for the investment options

#### Default arrangement

The transaction costs borne by members in the default arrangement (the Drawdown Lifestyle Strategy) during the year were in a range from -0.02% to 0.21% of the amount invested or, put another way, in a range from a gain of £0.20 to a cost of £2.10 per £1,000 invested.

#### Investment options outside the default arrangement

The transaction costs borne by members were in the following ranges:

- For the Annuity Lifestyle, in a range from -0.02% to 0.21% of the amount invested or, put another way, in a range from a gain of £0.20 to a cost of £2.10 per £1,000 invested; and
- For the Cash Lifestyle, in a range from -0.02% to 0.21% of the amount invested or, put another way, in a range from a gain of £0.20 to a cost of £2.10 per £1,000 invested.
- The transaction costs for the self-select funds were in a range from -0.02% to 0.21% of the amount invested or, put another way, in a range from a gain of £0.20 to a cost of £2.10 per £1,000 invested.



The table in Exhibit 1 gives the transaction costs for the funds.

#### Impact of costs and charges

The Trustee has asked the Plan's administrator, AEGON, to illustrate the impact over time of the costs and charges borne by members on projected fund values in today's money for a typical member over a range for the period up to retirement.

Exhibit 2 to this Statement shows these figures for the default arrangement (Drawdown Lifestyle), as well as the Annuity and Cash lifestyle options, with a note of the assumptions used in these illustrations.

The illustrations show projected fund values in today's money before and after charges and transaction costs for a member at retirement who joined the Plan at the age of 18 and completed their employment within the Plan at the retirement age of 65. This member, for instance, in the default arrangement, is forecast to see a reduction in their retirement pot due to the current rates of costs and charges, from a potential £871,154 to £779,660.

Please note that these illustrated values are based on assumptions, are not guaranteed, and therefore may not provide to be a good indication of how your own savings might grow.

#### (c) Missing information, regulatory information, reliance and limitations

The Trustee requested and received full information from Aegon on all areas.

Please note charges and transaction costs were provided for the 12-month period to 31 March rather than the Plan year to 5 April 2019. This because investment managers customarily only charges, costs and investment performance to quarter-ends in accordance with their funds' mandates.

This is not deemed to be material and figures from 1 to 5 April will be covered in the next report and statement. For the purposes of this statement (including the requirement for the Trustee to assess the extent to which charges and transaction costs represent good value to members), the charges and transaction costs stated are for the 12 months period supplied by Aegon without adjustment.

The Trustee also notes the following limitations:

- There is limited data available on industry-wide comparisons of charges and has relied on the market knowledge of its advisers; and
- There is limited transaction costs data available to provide industry-wide comparisons.

The Trustee understands that these issues currently affect many pension schemes and pension providers and that, the amount of comparative information available should improve over the next few years.

# (d) Value for Members

Each year, the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good value for members. As members only pay for investment management services, the Value for Members assessment is based solely on the investment charges and transaction costs.

The Trustee's definition of 'Value for Members', in line with the Pensions Regulator ('TPR')'s guidance, is one in which the cost of membership provides good value in relation to the services it provides to members, when compared with other options available in the market. Value is not simply about low cost – the Trustee also considers the quality of the services which members pay for. With the help of its advisers the Trustee compares the charges and costs as well as the quality of the services against other similar schemes.

#### Result

The Trustee believes that the Plan gave Good Value for Members during the year ending 5 April 2019.

#### Member borne charges

Members bear the charges for investment (including management and transaction costs). The Employer bears the costs of governance, administration and communications.



#### Approach

The Trustee adopted the following approach to assessing Value for Members during the last year:

Services – considered the investment, administration and communication services where members bear or share the costs;

Outcomes - weighted each service according to its likely impact on outcomes for members at retirement;

Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons.

Rating - each service was rated on the following basis:

Definition	Rating
The Trustee considers the Plan offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes.	Excellent
The Trustee considers the Plan offers good value for members, providing services at better quality/cost compared with typical options for similar schemes.	Good
The Trustee considers the Plan offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes.	Average
The Trustee considers the Plan offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.	Below average
The Trustee considers the Plan offers poor value for members providing services, within the bottom 20% quality/cost range compared with typical options for similar schemes.	Poor

#### Assessment

The rationale for the rating of the investment service for the year ending 5 April 2019 is as follows:

Service and weighting	Rating	Rationale
		The charges for the default arrangement, alternative lifestyle strategies and self-select/AVC funds are less than average.
Investment 100%	Good	The default arrangement is under the 0.75% p.a. charge cap for auto- enrolment purposes. Its charges moves from 0.17% p.a. (during the growth phase), 0.50% p.a. (during the consolidation phase) and to 0.41% p.a. (at retirement). Over a 40-year saving period the average charge is 0.27% p.a.



The Trustee notes that this compares well to the Department of Work and Pensions 2017 survey average charge of 0.41% p.a. for a trust based qualifying scheme with more than 1,000 members.

Transaction costs range from -0.02% p.a. to 0.21% p.a. and were similar to those of comparable schemes invested with major fund managers.

The investment options are suitable for the Plan's membership because:

- The lifestyle strategy used by the default arrangement effectively manages the investment risks members face and targets the majority of members who are expected use their pension account to provide a cash sum at and income drawdown during retirement;
- The two alternative lifestyle strategies provide for members wanting to take cash or buy an annuity at retirement; and
- There is a choice of 5 self-select funds for DC members wanting to be more involved with where their contributions are invested, which the Trustee believes is appropriate for the Plan's membership.

Investment performance was in line with the objective for 4 of the 5 funds used by the lifestyle strategy and self-select range while the other fund slightly underperformed its objective.

The Trustee has agreed an action plan for the coming year to improve value where necessary which is outlined in Section h of this Statement.

# (e) Processing financial transactions and administration

The Trustee has appointed AEGON Limited to administer the Plan on their behalf.

The Trustee monitored core financial transactions during the year including:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

The Trustee has adopted Aegon's service levels including:

- New joiner and contributions files and cash allocations are processed within 2 working days;
- Provision of retirement pack and quotation of benefits within 5 working days;
- Payments of benefits are made within 1 working day upon receipt of all criteria;
- Provision of drawdown quotation within 1 working day;
- Payment of benefits to a drawdown arrangement within 1 working day upon receipt of all criteria;
- Provision of transfer value quotation within 5 working days;
- Payment of transfer value on day of pricing with disinvestment within 1 working day;
- Provision of leaver option pack within 8 working days;
- Processing individuals transferring in to the Plan within 5 working days;
- Response to members enquiries within 1 working day;
- Provision of statements upon request within 5 working days; and
- Processing of investment switches on the same day if received before 1pm

Aegon aims to ensure that 95% of all these processes are completed within these service levels.

The Trustee understands that Aegon monitors its performance against these service levels by:

- Monitoring daily transactions;
- Monitoring daily workflow items;



- Regular internal audits of administration procedures; and
- Reviewing the level, causes and resolution of complaints.

The Trustee monitors the performance of the Plan's administration against the agreed service levels through quarterly administration reports from Aegon and notes the following:

- Core financial transactions were generally processed promptly, accurately and efficiently for the year to 5
   April 2019 apart from the following exceptions:
  - o 24 out of 492 core financial processing tasks were outside SLA in the period between 01/03/2018 and 31/05/2018 (lowest proportion of transactions inside SLA was 50% for pension sharing enquiry/claim)
  - 35 out of 307 core financial processing tasks were outside SLA in the period between 01/06/2018 and 31/08/2018 (lowest proportion of transactions inside SLA was 73% for single contribution)
  - 39 out of 293 core financial processing tasks were outside SLA in the period between 01/09/2018 and 30/11/2018 (lowest proportion of transactions inside SLA was 67% for single contribution schedule in -Auto)
  - 64 out of 386 core financial processing tasks were outside SLA in the period between 01/12/2018 and 28/02/2019 (lowest proportion of transactions inside SLA was 0% for single contribution)
- Over the 12-month period, Aegon met the agreed service standards on 94% of its work, slightly below the target service level of 95%. While there were delays in some cases throughout the year these were most pronounced in the last quarter; and
- The Trustee met with Aegon to review and consider the required action to improve performance.

The Trustee additionally monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings have been paid promptly to the Plan by the Employer;
- Each year AEGON conducts a review of the common and conditional data records held for the members of the Plan. The summaries of the reviews are then issued to the Trustee. The most recent of such reports was prepared in November 2018.
- Considering the feedback from our investment advisors on the competitiveness of the service standards against other administrators/providers;
- Receiving reports from the Plan's Auditor, who independently tests sample transactions for accuracy and timeliness; and
- Considering member feedback including any complaints.

The Trustee is satisfied that the service standards are in general competitive.

Overall, apart from the delays in Aegon processing some financial transactions, the Trustee believes that in general terms core financial transactions were processed accurately, promptly and efficiently.

The Trustee monitored this underperformance in its meetings and met with Aegon to review and consider the required action to improve administration performance. The Trustee believes that the action taken by Aegon should improve the administration service standards in the coming year.

#### Transfer from BlackRock Life to Aegon

On 1 July 2018 the defined contribution administration business of BlackRock Life was transferred to Aegon.

The funds in which the Plan invests were transferred seamlessly between BlackRock Life and Aegon and so members did not face any out-of-market risks or transaction costs.

Overall the Trustee is satisfied that in general, core financial transactions were processed accurately, promptly and efficiently.



#### (f) Security of assets

The situation regarding the security of where pension contributions are invested is complex. It can vary from scheme to scheme and from fund to fund within each scheme. To date there have only been a few instances where members of plans such as ours have seen their benefits reduced from financial failure of a provider or fund manager.

The Trustee has considered at a high level the risks that anything should happen to the platform provider AEGON and the Plan's fund managers BlackRock and Insight, which might affect the security of the Plan's assets and members' benefits. The Trustee believes that the legal structures of the providers and funds in place are appropriate and provide a suitable level of security compared to other possible structures available. The Trustee monitors the financial position of the provider and fund managers with respect to the security of members' assets on a periodic basis.

### (g) Trustee's knowledge and understanding

The Trustee's current practices to maintain and develop their level of knowledge and understanding of matters relating to the Plan (in accordance with sections 247 and 248 of the Pensions Act 2004) are:

- There is an induction process for newly appointed Trustee Directors who are asked to complete
  the Pensions Regulator's 'Trustee Toolkit' (an online training program to support newly
  appointed trustees) within six months of becoming a Trustee Director;
- Trustee Directors are expected to have a working knowledge of the Plan's Trust Deed and Rules;
- Trustee Directors are expected to have a working knowledge of the Plan's Statement of Investment Principles as well as the investment concepts relevant to defined contribution schemes;
- Trustee Directors are expected to have a working knowledge of all documents setting out the Trustee's current policies;
- Trustee Directors are expected to have sufficient knowledge and understanding of the law relating to pensions and trusts;
- Trustee Directors are encouraged to undertake further study and qualifications which support their work as Trustee;
- The Trustee have a documented plan in place for ongoing training appropriate to their duties;
- The effectiveness of these practices and the training received are reviewed annually; and
- The Trustee carries out regular assessments to confirm and identify any gaps in their knowledge and skills.

The Trustee received the following training during the last year:

Date	Topic	Aim/benefit to the Trustee and to members	Trainer
May 2018	Chair's Statements	This was an educational session for the Trustee to help them understand the new requirements for the Chair's Statement	
May and November 2018	Investment Strategy	These were educational session for the Trustee that included an overview of different asset classes and strategies	Hymans Robertson
May and November 2018	Responsible investment and Climate Risk	The Trustee Directors now have a clear understanding of their legal responsibilities in relation to responsible investment and are now considering whether any changes should be made to the range of funds offered to members.	Hymans Robertson
November 2018	This session helped the Trustee Directors to understand the options for scheme structures including developments in the master trust.		Hymans Robertson



The Trustee maintains and tests familiarity with the Plan's documentation and the Pensions Regulator's DC Code of Practice 13 and supporting guides by:

- Completing a high-level annual self-assessment against the DC Code.
- The Trustee Directors test their familiarity with the Plan's documentation, pensions Law/Regulations and the Pensions Regulator's DC Code of Practice 13 and supporting Guides as part of its Trustee Board meetings.
- The Trustee, with the help of their advisers, reviews the Statement of Investment Principles at least every three years. The last full review was carried out in September 2019 (the reviewed SIP will be signed on 26 September 2019). The updated statement includes the Trustee's policies with regards to Responsible Investment including climate change. Before then, a review was carried out in December 2018 and reviewed statement was accepted by the Trustee on 13 December 2018.

In addition to the training set out above, the Trustee receives the following updates to ensure it maintains sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment:

- The Trustee receives quarterly 'hot topics' from Hymans Robertson, as their investment adviser, covering technical and legislative/regulatory changes affecting defined contribution schemes. Topics included in these updates over the past year include developments in the master trust market, the introduction of the Money and Pensions Service, and an update on the provider marketplace.
- The Investment Committee receives Plan-specific action-based DC governance updates, as well as Investment Perspectives, a publication highlighting some of the most topical investment issues.

The Trustee benefits from being up-to-date on current issues and the members will have confidence the Trustee is aware of any issues that could impact the Plan.

The Trustee has appointed suitably qualified and experienced actuaries, legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Plan in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee reviews the effectiveness of its advisers annually and periodically reviews the appointment of its advisers.

The Trustee undertook the following Trustee reviews during the last year:

Date	Review of
November 2018	Trustee Effectiveness, including: - the make-up of the board; - the effectiveness of decision making; - Trustee knowledge and understanding; - key governance activities and Trustee support; - conflicts of interest.

The Trustee develops an annual training plan and will conduct a full Trustee Effectiveness Review over the coming year.

Following these reviews, the Trustee is satisfied that during the last year they have:

- a) Taken effective steps to maintain and develop their knowledge and understanding; and
- b) Ensured they received suitable advice.



The Trustee is satisfied that the combination of their knowledge and understanding together with access to suitable advice enabled them to properly exercise their duties during period covered by this Statement.

#### (h) Action plan

In the coming year (which will be covered by the next Statement), the Trustee intends to carry out the following:

- Communicate the results of the Value for Members assessment and arrange for the publication of the Chair's Statement and Statement of Investment Principles in a publicly searchable location on the internet. A note of this location will be included in the annual benefit statements;
- Continue to monitor administration service levels and meet with Aegon at a Trustee level to review and consider any required action;
- Work with Aegon and its advisers to improve the comparative information used in the Value for Members assessment next year;
- Formalising their investment beliefs on Environmental, Social and Governance ('ESG') considerations and updating the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible Investment which come into force on 1 October 2019; and
- Monitor progress at Trustee meetings.

# Exhibit 1

# Table of funds and charges

The fund charges (as 'Total Expense Ratios') and transaction costs in the last year used in the default arrangement are as follows:

#### 1 Charges and transaction costs

			Charges *** Transaction costs <sup>1</sup>					
Fund		SEDOL* Investment Option	% p.a. of amount invested	£ p.a. per £1,000 invested	% p.a. of amount invested	£ p.a. per £1,000 invested	Underlying Fund***	ISIN **
Long-term Growth Fund	B4XBXG4	Drawdown, Annuity, and Cash Lifestyle	0.17%	£1.70	-0.02%	-£0.20	BlackRock Aquila 30:70 Currency Hedged Global Equity Fund	GB00BYX7SL22
Diversified Assets Fund	B4WMLJ7	Drawdown, Annuity, and Cash Lifestyle	0.50%	£5.00	0.21%	£2.10	60% BlackRock DC Dynamic Allocation Fund	GB00BVYJ4075
							40% Insight Broad Opportunities Fund	IE00B4ZPJJ95
Managed Cash Fund	B5027X2	Drawdown, Annuity, and Cash Lifestyle	0.13%	£1.30	0.02%	£0.20	BlackRock DC Cash Fund	IE00B52L4369
Managed Defensive Fund	B4XHDX9	Annuity Lifestyle	0.14%	£1.40	0.01%	£0.10	50% BlackRock Aquila Over 15 Year Gilt Fund	GB00B5B12Z56
							50% BlackRock Aquila Over 15 Year Corporate Bond Fund	GB00BFBFX764
Managed Inflation- linked Defensive	B4VBJQ8	Annuity Lifestyle	0.14%	£1.40	0.02%	£0.20	BlackRock Aquila Over 5 Year Index-Linked Gilt Fund	GB00B83RX604

Source: AEGON, Hymans Robertson

Transaction costs arise when the fund manager buys, sells lends or borrows investments. These costs are allowed for within the unit prices of the funds, which means they are not readily visible. In 2017, the Financial Conduct Authority (FCA) published its policy on how fund managers must disclose transactions costs. Due to the way they are calculated, these may be negative, meaning the price of a trade when transacted was lower than when the instruction to make the trade took place.

<sup>&</sup>lt;sup>1</sup> Actual transaction costs for the period 01/04/2018 to 31/03/2019 (figures rounded to two decimal places).

<sup>\*</sup> SEDOL = Stock Exchange Daily Official List identification code.

<sup>\*\*</sup> ISIN = the International Securities Identification Number unique to each fund.

<sup>\*\*\*</sup> Charge = the funds' Total Expense Ratio ('TER'), which includes the funds' Annual Management Charge ('AMC') and Operating Costs and Expenses.

<sup>\*\*\*\*</sup> Underlying Fund = the fund(s) in which the Plan's top-level Fund invests.

# Exhibit 2

# Tables illustrating the impact of charges and costs for AEGON funds

For the default arrangement (Drawdown Lifestyle) and self-select options (Cash Lifestyle and Annuity Lifestyle)

The following table shows the potential impact of the costs and charges borne by an average member(s) on projected values at retirement in today's money i.e. real terms, with inflation, as illustrated by the platform provider AEGON. For a model member of age 18 with an existing fund value of £16,000:

Years of Demployment	Drawdown Lifestyle	e Strategy (default)	Annuity Lifestyle Strategy Cash Lifes			yle Strategy	
	Before charges (£)	After charges (£)	Before charges (£)	After charges (£)	Before charges (£)	After charges (£	
1	23,530	23,499	23,530	23,499	23,530	23,499	
3	39,567	39,437	39,567	39,437	39,567	39,437	
5	56,982	56,696	56,982	56,696	56,982	56,696	
10	107,179	106,200	107,179	106,200	107,179	106,200	
15	168,227	166,011	168,227	166,011	168,227	166,011	
20	242,031	237,859	242,031	237,859	242,031	237,859	
25	330,807	323,744	330,807	323,744	330,807	323,744	
30	435,758	423,686	435,758	423,686	435,758	423,686	
35	551,243	526,196	551,243	526,196	551,243	526,196	
40	675,641	626,996	669,441	622,655	675,641	626,996	
45	816,607	737,352	763,908	701,302	814,445	735,779	
47	871,154	779,660	790,489	724,846	846,247	761,678	

Source: AEGON

The assumptions used in these calculations were as follows:

Data Item	Assumption	nption Reason		
Existing Account value	£16,000	Median existing account value across scheme (rounded to nearest £1,000)		
Member salary	£39,000	Median salary across scheme (rounded to nearest £1,000)		
Illustration term	47 years	Age of youngest member (18) to scheme NRA (65)		
Contribution rate	6%EE 12%ER (Total 18%)	Median contribution rates across scheme for employee and employer		
Default Fund Option	Drawdown Lifestyle Strategy	Default investment option and most popular investment option		
Alternative Fund 1	Annuity Lifestyle Strategy	As requested		
Alternative Fund 2	Cash Lifestyle Strategy	As requested		
Alternative Fund 3	Managed Cash	Fund with the lowest assumed growth		
Alternative Fund 4	Long Term Growth	Fund with the highest assumed growth		
Fund growth rates (pre- inflation) for the selected unds above  Managed Cash 1.24% Long Term Growth 5% Diversified Assets 4.18% Managed Defensive 1.89%		Our fund growth rate assumptions currently used for FCA illustrations (permitted under the guidance and the only basis we can illustrate on as the 'reduction in yield' values required are only produced for FCA illustrations). Note: our 'Equity' asset class growth assumption is currently capped at 5% (FCA maximum) for FCA illustrations.		
Price inflation	2.0%	Standard price inflation assumption for FCA illustrations (in line with the guidance and only basis we can currently illustrate on).		
Earnings inflation	3.5%	Standard earnings inflation assumption for FCA illustrations (in line with the allowable range in the guidance and only basis we can currently illustrate on).		

#### Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- The assumptions used may be differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and yet unknown, changes to the Plan's investment options;
- Are not guaranteed;
- Depend upon how far members in the lifestyle options are from retirement as the funds used change over time;
- May not prove to be a good indication of how your own savings might grow.



#### Exhibit 3

# Statement of Investment Principles

# For the De La Rue Defined Contribution Pension Plan

# Introduction

#### Background

This Statement of Investment Principles has been prepared by De La Rue Pension Trustee Limited (the "Trustee") and sets out the principles governing investment decisions for the De La Rue Defined Contribution Pension Plan (the "Plan").

#### Statutory Information

The Statement has been prepared in accordance with Regulation 2A(1)(a), 2A(1)(b) and 2A(1)(c) of the Occupational Pension Schemes (Investment) Regulations 2005 and as required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Trustee has taken proper written advice and consulted the Employer in the preparation of these Statements of Investment Principles. The Trustee will review this Statement, in consultation with the investment consultant and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Plan's membership.

### Investment Beliefs

#### **Investment Risks**

The Trustee believes that investment risk is rewarded in the long term, while asset allocation is the key tool for managing the balance between risk and return. The Trustee believes that a range of investment options should be offered to members because risk-return attitudes will vary among members and for each member over time, especially near retirement.

The main risks faced by members and the Trustee's steps to manage these risks are as follows:

#### Principal investment risks

Risk	Nature of risk	Management of risk
Inflation	Investment returns over members' working lives will not keep pace with inflation and do not produce adequate retirement benefits.	For members far from retirement, the Default and a range of the self-select options invest in return-seeking assets during the accumulation phase, which are expected to produce returns greater than inflation over the longer term.
Benefit conversion	Investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.	Flexible income drawdown retirement choice: the Default switches assets into a Diversified Assets Fund and a Managed Cash Fund during the de-risking phase of the strategy.  Cash at retirement: Cash Lifestyle switches into a Managed Cash Fund during de-risking.  Annuity at retirement: Annuity Lifestyle switches into the Managed Defensive Fund and



		Managed Cash Fund during the de-risking phase. This strategy assumes that members will take 25% of their pension as a tax-free lump sum at retirement.  The self-select range offers funds which may be suitable for members wishing to access drawdown, buy an annuity, or take 100% cash.
Market volatility	Adverse movements in investment markets reduce the anticipated level of benefits.	Younger members have more years to retirement and can withstand market volatility as they benefit from pound cost averaging of investment of contributions. For members close to retirement, the Default and Lifestyle Options increasingly invest in funds diversified across several asset classes less susceptible to volatility than equities. These funds are also included in the self-select fund range.

#### Other investment risks

Risk	Nature of risk	Management of risk		
Counterparty risk	The financial institutions holding a fund's assets may get into financial difficulties leading to a loss in value.	The Trustee delegates the appointment and day-to-day management decisions to the fund managers.		
Active management	The active investment manager will not deliver returns in line with their stated targets. Passive funds, whose returns track a market index, may deliver returns more efficiently than active funds in some markets.	The Trustee recognises that actively managed funds may not always deliver the expected returns. The Trustee regularly monitors fund performance and other aspects in relation to their active managers (e.g. team changes).		
Liquidity  Funds invested in more illiquid assets with be able to accept investments/disinvestrated as requested by the Trustee and/or mentals.		The funds offered to members are mainly funds invested in readily tradable securities. The Trustee is satisfied that the pooled funds offered to the Plan's members have sufficient liquidity and may be realised quickly if required.		
Currency	Exchange rate fluctuations will impact the value of investments outside the UK when they are being bought or sold.	The main fund used in the growth phase of the Lifestyle options has a significant proportion of its overseas exposure hedged back to sterling.		
Default	Bonds: The issuing company or government fails to pay the interest due or repay principal.	Bond funds offered to members invest in diversified portfolios of bonds.		
Interest rate	The value of funds which invest in bonds will be affected by changes in interest rates.	The Trustee recognises the impact of interest rates changes and communicates this to members.		
Environmental, Social and Governance (ESG)	The extent to which ESG issues are not reflected in asset prices and/or not considered	The Trustee has received training on ESG and will consider whether funds that manage ESG risks could be used within the Default and/or		



	in investment decision-making, leading to underperformance relative to expectations.	self-select funds. The Trustee's approach to ESG risk is set out in section 6 below.	
Climate	The extent to which climate change causes material deterioration in asset value due to factors including, but not limited to: policy change, physical impacts, and the expected transition to a low-carbon economy.	The Trustee recognises the risks posed by climate change and monitors developments in this area and its long term financial impacts. The Trustee's approach to climate risk is set out in section 6 below.	
Legislative and regulatory	Changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country's economy or one country relative to its neighbours over the medium-to-long term. Regulatory changes can also affect operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter term.	The Trustee receives regular updates on	

#### Investment horizon

The Trustee monitors the age profile of the Plan's membership to arrive at an appropriate investment horizon when considering all investment risks. The Trustee considers the Plan's investment horizon to be long term.

#### Expected returns on investments

The expected returns on the principal asset classes and fund types within the Plan are:

Asset Class	Expected Return
Equities	Achieve a strong positive return relative to inflation over the long term but tend to be the most volatile asset class over the shorter term.
Multi-Asset Funds	Invest in a mix of asset classes targeting a level of positive returns relative to inflation over the longer term, with a volatility target lower than equities.
Property	Achieve positive returns relative to inflation over the longer term, which is lower than equities, but with a shorter-term volatility target less than equities.
Corporate Bonds	Achieve positive returns relative to inflation over the longer term, lower than equities and property, but with a shorter-term volatility target than both.
Fixed-interest Government Bonds (Gilts)	Deliver positive returns relative to inflation over the longer term, lower than for equities, property and corporate bonds. Current yields being below inflation suggest this expectation is unlikely to be met in the current climate, but this asset class should nonetheless provide interest-rate duration hedging whilst targeting lower shorter-term volatility than equities, property and corporate bonds.
Index-linked Government Bonds (Index-Linked Gilts)	Deliver returns in line with inflation over the longer term. As above, this expectation is unlikely to be met, as current yields are deeply negative; nonetheless this asset class provides inflation matching, with a lower shorter-term volatility target than equities, property and corporate bonds.



Long-dated Government Bonds (Gilts) and long- dated Corporate Bonds	Values should move broadly in line with the financial factors influencing annuity rates.
Cash	Delivers a positive return which may not always meet inflation, while normally providing a minimal level of volatility and high degree of capital security.

#### Types of funds used

#### Delegation of investment decisions

The Plan uses funds provided through an investment platform, which in turn invests in funds provided by a selection of fund managers where investments are pooled with other investors. The pooled funds are considered appropriate for tax-exempt approved occupational pension schemes.

This affords the Plan a good spread of investments in a cost-effective manner. The charges and costs levied by the platform provider and investment managers can have a material effect on the net return.

The managers are expected to maintain diversified portfolios. Subject to benchmarks and guidelines, managers have full discretion in the choice of securities and of asset classes for multi-asset funds.

#### Security of assets

The funds are provided through a policy of insurance issued to the Trustee by the platform provider and the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through a range of investment structures. In the event of a fund manager getting into financial difficulty, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds. The Trustee has reviewed the structure of the funds offered to members and is satisfied that this is appropriate against other possible structures available.

#### Investments held

The pooled investment vehicles may invest in:

- Quoted and unquoted securities of UK and overseas markets including equities, fixed-interest and indexlinked bonds, cash, commercial and residential property;
- Infrastructure and commodities through collective investment vehicles;
- Exchange-traded funds (ETF) to gain access to less easily traded and illiquid asset classes; and
- Derivatives to facilitate changes in the fund's portfolio of assets or help mitigate investment risks or to enhance investment returns

The Funds used are provided through an insurance-based platform and so must comply with the FCA's "Permitted Links" rules, which place limits on the degree of leverage which a fund can use.

#### Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the Default and Lifestyle investment strategies, or as requested by the member.

The Trustee expects the platform provider to be able to realise the Plan's funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of



purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.

Nevertheless, the Trustee recognises that most members' pension pots have a long investment timeframe, during which assets less easily traded, such as property or infrastructure, can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

#### Member benefit choices at retirement

Members have a choice of

Taking 100% cash at retirement;

Taking Uncrystallised Funds Pension Lump Sums ("UFPLS") for several years into retirement;

Using Flexible Access Income Drawdown ("FAD") during their retirement; or

Buying an annuity at retirement or several years into their retirement.

The Trustee has considered which of these flexibilities will be offered to members. Currently cash and annuity purchase together with one UFPLS payment in the early years of retirement are provided within the Plan, but members wanting to use FAD, buy an annuity at a later date, or spread UFPLS withdrawals over a number of years must transfer their fund to an arrangement outside the Plan.

The Trustee believes that members' choices of benefits at retirement will be strongly influenced by:

The value of their DC Pot in the Plan;

The value of their deferred benefits from previous occupational pension schemes (especially defined benefits) and workplace group personal pension plans; and

Replacement income, and other income including non-pension savings and partner's pension provision.

In practice, the Trustee can only reliably consider the likely size of members' DC pot in the Plan.

The Trustee believes that a typical member, without significant sources of income outside the Plan, could be expected to act mostly as follows:

- Small pots would be taken as cash.
- Medium-sized pots would be taken as cash or Flexible Access Income Drawdown (FAD).
- Larger pots would be taken partly as cash at retirement and FAD during retirement, although some may use part of their DC Pot to buy an annuity at, or some years into, retirement.

The Trustee believes that it is in the best interests of members to have a default arrangement that targets the method by which most members are expected to take retirement benefits.

# **Investment Objectives**

#### Overall objectives

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries. The Trustee believes that understanding member demographics and likely risk-reward attitudes is essential to developing and maintaining an appropriate investment strategy.



#### **Default Arrangement**

#### **Reasons for Default Arrangement**

The Plan has a default arrangement because the Trustee believes that:

- Most members are either not able or not willing to decide where their pot should be invested;
- It should be easy to become a member of the Plan and start building retirement benefits without the need to make these decisions;
- Most members are expected to have broadly similar investment needs;
- The presence of an effective default arrangement will help deliver good outcomes for members at and into retirement. In addition,
- The Plan is a qualifying scheme for auto-enrolment purposes and is required by Regulation to have a
  default arrangement.

#### Objectives of the Default Arrangement

The principal objectives of the Plan's default arrangement are:

- To manage the principal investment risks faced by an average member during membership;
- To target the majority of members who are expected to use FAD during their retirement and take their maximum allowable-tax free cash lump sum at retirement;
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for most of the time members are in the Plan:
- In the years leading up to retirement, to increasingly invest in funds which will deliver good returns relative to inflation while helping to mitigate the risk of major market downturns and fluctuations in the costs of turning fund values into retirement income; and
- In the years leading up to retirement, to increasingly invest in cash to a target allocation of 25%, recognising the 25% tax-free cash allowance available to members at retirement, whilst also helping to mitigate fluctuations in fund values.

#### **Drawdown Lifestyle Strategy**

The Drawdown Lifestyle Strategy has been set as the Plan's default arrangement (full details in Appendix 3). The rationale is summarised as follows:

- The expected contribution levels, levels of investment returns (after deduction of charges), and risks for the funds within, are all consistent with the Trustee's objectives for a Default;
- Based on member analysis carried out in early 2019, the Trustee believes that most members at retirement
  are likely to take cash or drawdown most of their benefits over time through Flexi Access Drawdown (FAD). It
  also believes that most members will take their maximum allowable tax-free cash lump sum at retirement;
- It is designed to have a portfolio of assets at retirement that maintains a proportion in return-seeking assets, with most members being expected to access FAD post-retirement.

The Trustee will continue to monitor members' choices at retirement to ensure that the current default arrangement remains appropriate, via high-level annual review of member behaviour.

#### Investment options

In addition to the Default, the Plan offers members a choice of investment options because while the default arrangement is intended to meet the needs of most of the Plan's members, it may not meet the needs of a wider



cross-section of members. In addition, some members will wish to be more involved in choosing where their contributions are invested.

The Trustee believes that the following investment options are appropriate in addition to the default arrangement to achieve the overall objectives of the Plan:

#### Alternative Lifestyle Options

Alternative Lifestyle options are offered for those members who believe that the target retirement benefits of the default investment strategy are not appropriate to their needs, but otherwise do not want to take an active part in selecting where contributions are invested.

The alternative Lifestyle options manage the principal risks faced by members during their membership, but target taking their retirement benefits as cash at retirement or purchasing an annuity (and taking 25% tax-free cash) at retirement.

Full details of the investment options are provided in Appendix 3.

#### Self-select funds

The self-select fund range is provided for members who want to take an active part in choosing where their DC pot is invested and complements the Default Option and the alternative Lifestyle options. The self-select fund range covers a spectrum of investment risk levels and approaches, so that members can tailor the investment of their fund more closely to their personal needs and risk attitude, although it cannot be expected to cover all the investment needs of all members.

Full details of the self-select investment options are provided in Appendix 3.

# Governance

#### Trustee's Powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

#### Responsibilities

The key responsibilities in connection with the governance of the Plan are set out in Appendix 1.

#### Conflicts of interest

The Trustee maintains a register of interests of each of the Trustee Directors and their advisers. This register is reviewed at each Trustee meeting to ensure that any potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

In the event of a conflict of interests, the Trustee will need to ensure that contributions for the default option are invested in the sole interests of members and beneficiaries.

#### Communication

The Trustee communicates regularly with all stakeholders to ensure that they are aware of the Trustee's responsibilities in relation to investment. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Providing communications to Plan members;



- Producing the Annual Report and Accounts (which includes a Chair's Statement as required by Regulation);
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the platform provider, which provides both the fund platform and the administration of the Plan; and
- Providing a range of literature to assist members in making their investment decisions. In addition, members are provided with access to factsheets for each fund showing the latest asset allocation and where adequate historic performance exists, past performance.

#### Service Providers

Details of the Plan's current service providers and investment managers are set out in Appendix 2.

#### Fees

Details of the current fees for the Plan's service providers and funds are set out in Appendix 4.

# Monitoring

#### Investment Performance

The Trustee regularly reviews the performance of each fund in which the Plan invests against its stated performance objective. The Trustee receives an independent investment performance monitoring report on a quarterly basis.

#### Investment arrangements

#### **Default Arrangement**

The Trustee monitors the suitability of the default arrangement at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the member demographic.

#### Lifestyle Options

The Trustee monitors the suitability of the alternative Lifestyle Options at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the member demographic.

#### Charges

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored and formally assessed by the Trustee annually to ensure that they represent "value for members" relative to the needs of the membership.

The Plan is a qualifying scheme for auto-enrolment purposes. The Trustee monitors the compliance of the default arrangement with the charge cap introduced by the Pensions Act 2014, which applies from April 2015. Information on the total charges paid by members is provided by AEGON on a quarterly basis. Members do not pay administration charges.

Details of the current charges are set out in Appendix 4.

#### Transaction costs

As part of the annual Chair's Statement, the Trustee monitors the funds' transaction costs, to ensure that they are reasonable and represent value for money to members.



#### Investment process

The Trustee monitors the processes whereby contributions in respect of members are invested in and money is disinvested from the investment options to pay benefits.

#### Chair's Statement

The Chair's Statement confirms the results of the monitoring during the preceding year.

#### Security of Assets

The security of funds' assets when choosing a fund provider/manager and thereafter.

# Responsible Investment

The Trustee recognises that having a formal Responsible Investment policy will better allow the Trustee to prioritise investment decisions.

#### Members' financial interests

The Trustee has requested that the platform provider and investment managers have the financial interests of the members as their priority when choosing investments.

#### Financially material considerations

The Trustee recognises that financially material considerations, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Plan's investment options. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making.

**Strategic considerations:** The Trustee acknowledges the risks of climate change, especially given the longer time horizon of the Plan, but given the inherent uncertainty of its timing and impact, the Trustee has not, at this stage, made explicit allowance for the risks of climate change in setting the Plan's investment strategy.

• The Trustee has reviewed the Plan's fund range and will continue over time to consider the suitability of incorporating ESG considerations directly into the default strategy and/or the range of self-select funds. The Trustee will discuss the importance of climate risk with its adviser and will monitor developments in this area with formal updates on at least an annual basis.

**Structural considerations:** Given the discretion delegated to the platform provider and investment managers, the Trustee expects that the managers will consider all financially material factors including the potential impact of ESG factors in the implementation of their mandates.

**Investment manager selection:** Within active mandates, the Trustee has delegated responsibility for the consideration of stock-specific issues to the individual investment managers.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the manager and that the manager has minimal freedom to take account of factors deemed financially material.

• The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and will on a regular basis review the choice of benchmarks to deliver appropriate risk-adjusted returns.



The Trustee is satisfied that the platform provider and investment managers are following an approach which takes account of all financially material factors.

In selecting new investment managers, where relevant to the investment mandate the Trustee will explicitly consider the potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

#### Non-financially material considerations

The Trustee does not currently impose restrictions or exclusions on the investments based on non-financially material factors but may consider doing so in the future, while acknowledging the difficulty of such implementation. The Trustee recognises, however, that some members may have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee notes that most members have not made active investment choices. The Trustee has thus decided at this stage not to formally survey members' views on non-financial factors relating to the Plan's investments but will re-visit this over time. The Trustee will consider what, in their reasonable opinion, members' views of non-financial factors are likely to be, given this approach to engagement with members. The Pensions Team will continue to update the Trustee on any feedback from members specifically in relation to ESG issues.

#### Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the platform provider, and the monitoring of compliance with agreed policies.

The Trustee's policy is to delegate responsibility for the voting decisions on stocks to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

As part of broader monitoring activity, the Trustee will review engagement policies and actions, including voting, undertaken by the Plan's investment managers.

The investment managers should engage with key stakeholders relating to their investments to improve corporate behaviours, improve performance, and mitigate financial risks.



This Statement of Investment Principles was completed in September 2019. It will be next reviewed no later than autumn 2022 and without delay after any significant change in investment policy or demographic profile of the Plan's membership.

#### Signed on behalf of the Trustee of the Plan:

Name	Signature	Date
MIKE ROBERTS	MURIL	26/9/19

Name	Signa/ture	Date
SMERCEN		30/9/19



# Statement of Investment Principles: Appendix 1 Responsibilities

#### Trustee

#### The Trustee's primary investment responsibilities:

Operating the Plan in accordance with its Trust Deed and Rules.

Ensuring that the investment options are suitable for the Plan's membership profile.

Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultants.

Appointing investment consultants and other advisors as necessary for the good stewardship of the

Appointing the investment platform provider and selecting the fund managers who invest the Plan's assets. Having taken advice from the Plan's investment consultants, the Trustee is satisfied that the appointed investment managers have sufficient experience and expertise to carry out their role.

Assessing the performance, charges and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the investment consultants.

Monitoring compliance of the investment arrangements with this Statement on a regular basis.

Preparing an annual Chair's Statement for inclusion in the Annual Report and Accounts.

Preparing an annual statement of compliance with this Statement of Investment Principles from 1 October 2020.

#### Investment consultants

#### The investment consultants' main responsibilities:

Assisting the Trustee in the preparation and annual review of this Statement in consultation with the Principal Employer.

Providing advice to the Trustee on the default arrangement, alternative lifestyle strategies and the self-select fund range.

Providing advice on the selection of an investment platform provider.

Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.

Providing general advice in respect of the Plan's investment activities.

Providing views on the investment managers used by the Plan and assists the Trustee in the selection and appointment of appropriate investment managers when necessary.



Providing training or education on any investment related matter as and when the Trustee see fit.

#### Platform Provider/Investment Managers

All day-to-day investment management decisions have been delegated to the platform provider and/or investment managers authorised under the Financial Services & Markets Act 2000.

#### The investment managers' main responsibilities:

Ensuring that investment of the Plan's assets follows prevailing legislation and within the constraints detailed in this Statement.

Investing in the funds selected by the Trustee.

Attending meetings with the Trustee as and when required.

Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Plan as and when they occur.

Exercising voting rights on shareholdings in accordance with their general policy.

Following its general policy on socially responsible investment.

#### Administration

#### The administrator's main investment related responsibilities:

The prompt investment and reconciliation of contributions.

Undertaking switches between funds as required.

Operating the Default Option and alternative Lifestyle strategies.

Maintaining records of the members' investments.

Realising investments to pay benefits.

Providing members with annual benefit statements.

#### Custodian

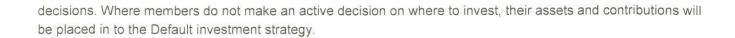
The custody arrangements are those operated by the investment managers for all clients investing in their funds. The custodians are responsible for ensuring the security of the funds' underlying assets and recording sales and purchases of the funds' underlying assets.

#### Employer

The Employer is responsible for paying the contributions and for providing support to the Trustee to help govern the Plan.

#### Members

Members are responsible for choosing the investment options in which contributions are invested, consistent with their tolerance of risk, likely benefits at retirement and their level of understanding and ability to take investment





# Statement of Investment Principles: Appendix 2 – service providers

The Trustee has appointed the following service providers:

#### Investment Adviser

The investment adviser is Hymans Robertson LLP.

#### Platform Provider

The investment platform through which the investment options are operated is provided by:

**AEGON Retirement Choices** 

#### **Investment Managers**

The investment managers accessed through the investment platform are:

- BlackRock Investment Management
- Insight Investment Management (Global) Limited

#### Custodians

The funds' custodians are appointed by the investment managers.

#### Administration

The administration of the Plan is carried out by:

**AEGON Retirement Choices** 



# Statement of Investment Principles: Appendix 3 – Investment options

#### **Default Arrangement**

#### Income Drawdown Lifestyle Strategy

The investment profile of the default arrangement is shown below.

In the early years (until 20 years before a member's selected retirement age) contributions are invested in funds which aim to generate returns that produce a return greater than inflation over the long-term (the "Long Term Growth Fund").

Between 20 and 10 years before a member's selected retirement age, the accumulated and future contributions are gradually moved to 100% in a blended Diversified Assets Fund ("DAF") to retain an element of growth whilst incorporating a degree of capital protection.

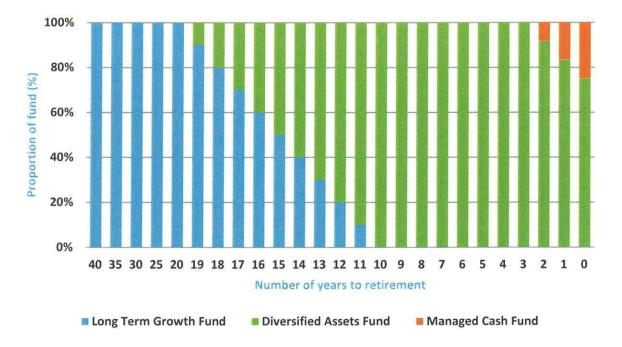
Between 10 and 3 years to retirement, remain 100% invested in a blended DAF.

In the final 3 years before retirement, the strategy gradually moves 25% of the investments out of the DAF and into the Managed Cash Fund.

This has been designed assuming a member takes advantage of the 25% tax-free cash allowance at retirement, with the remaining 75% targeting a portfolio that is invested in a manner consistent with the investment strategy of a typical income drawdown portfolio (as much as this is possible).

In practice, rebalancing will take place on a quarterly basis.

The Trustee believes this type of strategy will be appropriate for members who will opt for drawdown after retirement and largely suitable for members who will target taking their pot as cash.



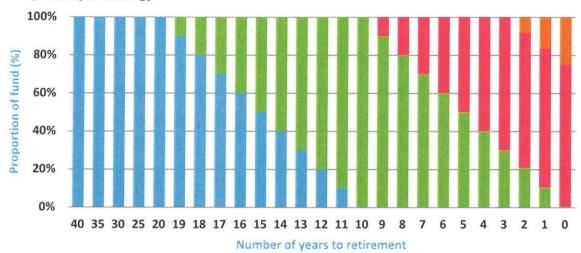


#### Alternative Lifestyle options

The Trustee has determined that two additional Lifestyle options be made available to members, one which targets cash and another that targets an annuity purchase. The strategies of both funds are the same as in the default investment strategy up until 10 years before retirement. The Annuity Strategy then de-risks members to a position of 75% in bonds (in the "Managed Defensive Fund" and 25% in cash (the "Managed Cash Fund") at the point of retirement. The Cash lifestyle strategy de-risks members to a position of 100% in cash at the point of retirement.

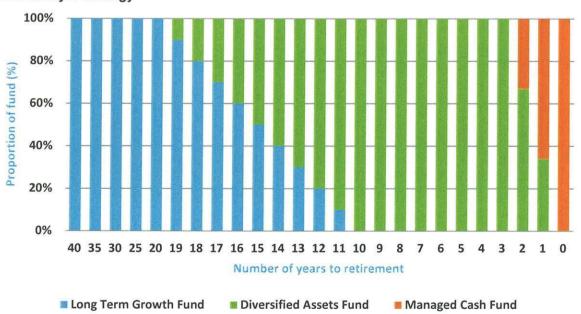
The investment profiles of the alternative Lifestyle options are set out below.







#### Cash Lifestyle Strategy



Members can select their own target retirement age. If they do not make an active decision, the target age is taken as age 65.



## Funds and underlying funds used in Default Arrangement and Alternative Lifestyle Options

White-labelled funds and underlying funds

Long Term Growth Fund	Diversified Assets Fund	Managed Defensive Fund	Managed Cash Fund
100% BlackRock Aquila 30:70 Currency Hedged Global Equity Fund	60% BlackRock DC Dynamic Allocation Fund	50% BlackRock Aquila Over 15 Year Gilt Fund	100% BlackRock DC Cash Fund
	40% Insight Broad Opportunities Fund	50% BlackRock Aquila Over 15 Year Corporate Bond Fund	

**Underlying funds** 

Fund name	Fund manager	Asset Class	Objective	Benchmark
BlackRock DC Aquila 30:70 Currency Hedged Global Equity Index Fund	BlackRock	Global Equities	Track index	30% FTSE AII Share Index 60%FTSE AW Dev ex UK 10% MSCI Emerging Markets Index (75% of the overseas exposure is hedged back into sterling)
BlackRock DC Dynamic Allocation Fund	BlackRock	Diversified Growth	BoE Base Rate +3.5%	BoE Base Rate
Insight Broad Opportunities Fund	Insight	Diversified Growth	LIBID +4%	3-Month LIBID
BlackRock DC Aquila Over 15 Year UK Gilt Index Fund	BlackRock	Gilts	Track index	FTSE UK Gilts Over 15 Years Index
BlackRock DC Aquila Over 15 Corporate Bond Index Fund	BlackRock	Corporate bonds	Track index	iBoxx Sterling Non- Gilts Over 15 Years Index
BlackRock DC Cash Fund	BlackRock	Cash	Outperform index	7-Day LIBID



#### Self-select Fund Range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles. These include all the white-labelled funds used in the default arrangement, Alternative Lifestyle Options, (as shown in the table above), and the following fund:

Fund Name	Underlying Fund name	Fund manager	Asset Class	Objective	Benchmark
Managed Inflation Linked Defensive	BlackRock DC Aquila Over 5 Year Index Linked Gilts Fund	BlackRock	Index Linked Gilts	Track index	FTSE UK Gilts Index-Linked Over 5 Years Index

All the funds used by the default arrangement, alternative lifestyle strategies and self-select funds are provided through an investment platform operated by AEGON.

If a member invested in any of the Lifestyle options changes their target retirement age, their investment strategy will be amended to be in line with their new retirement date.

#### Reverse switching

In each of the three Lifestyle strategies available to members the platform provider AEGON rebalances the accounts on a quarterly (as of the next business day) basis. Therefore, when a member moves from one asset mix to another, e.g. from 100% growth assets to a mix of growth and income, if market movements at the time cause material deviations in the strategy asset mix, the regular rebalancing precludes the need for reverse switching to restore the member to the appropriate asset mix.



# Statement of Investment Principles: Appendix 4 – Fees and Charges

#### Investment Adviser

The Plan's Investment adviser is paid on a fixed-fee basis, where possible, and on a time-spent fee basis, for ad hoc work or where a scope is difficult to specify fully in advance. The Trustee believes that this approach ensures that all advice is impartial and independent.

#### Fund fees

AEGON, as the platform provider, applies the following charges for investing in the funds selected by the Trustee. Members do not pay for the administration costs of the Plan:

#### Default arrangement

Fund	Annual Management Charge (AMC)	Additional Expenses *	Total Charge
Long-Term Growth Fund	0.15	0.02	0.17
Diversified Assets Fund	0.41	0.09	0.50
Managed Cash Fund	0.10	0.03	0.13

Source: AEGON

The Trustee monitors the total charges of the funds used in the default arrangement at quarterly reference points. The total charges borne by members in the default arrangement over a rolling 12-month period comply with the charge cap set by the Department of Work and Pensions.

#### Self-select fund range

Fund	Annual Management Charge (AMC)	Additional Expenses *	Total Charge
Managed Defensive Fund	0.13	0.01	0.14
Managed Inflation Linked Defensive Fund	0.13	0.01	0.14
Long-Term Growth Fund	0.15	0.02	0.17
Diversified Assets Fund	0.41	0.09	0.50
Managed Cash Fund	0.10	0.03	0.13

Source: AEGON

The fees in the tables above

<sup>\*</sup> Additional expenses are all the other operating costs and expenses (OCEs) within the fund, including the known fixed cost of operating the funds (fund administration, custody and professional fees), but excludes transaction costs. These costs can vary from fund to fund and from time to time but are accurate as at 30 June 2019.



\*\* The Total Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and OCE. It excludes transaction costs on the fund's underlying assets.

The AMC and Total Charge include the platform provider's charges.

The charges for the investment options are borne by the members and are deducted from the funds before the fund's net asset values and unit prices are calculated.

The funds' total charges and transaction costs are monitored by the Trustee. The results of this monitoring are set out in the annual Chair's Statement which is included in the Trustee's annual report and accounts.

#### Administration

The administration costs are met by the employer.