

Chairman's Statement

Summary of the Year

As is the norm in the pension industry, the financial year 2018-19 has seen much change with the introduction of new legislation requiring adjustments to the Scheme's rules and processes to ensure compliance. The Trustees believe they have continued to provide a high quality service to the Scheme's members.

Governance

The Trustees remain committed to maintaining high standards and delivering pension benefits for all members of the Scheme that provide good value for money.

A review of the Scheme confirmed that its practices comply with the Pension Regulator's Governance Codes and Practice.

The Trustees also have in place a Risk Register, which identifies any potential risks the Scheme may face, the impact each risk would have on the Scheme and its members, and the likelihood of it happening. The Risk Register ensures there are sufficient controls in place to mitigate each risk and includes action plans to ensure the continuity of the Scheme in the instance of such an event occurring. The Trustees monitor the Risk Register to ensure their processes and practices remain relevant.

Trustee Knowledge and Understanding

The Trustees are required by law to possess, or have access to, sufficient 'knowledge and understanding' to run the Scheme effectively. The Trustees take this responsibility seriously and work with their professional advisers to address any areas where their knowledge might be less than the Pensions Regulator would expect.

The Trustees undertake training and reading to help them to keep up-to-date with changes in legislation and good practice. They ensure they have a good working knowledge of the Scheme's trust deed and rules, statement of investment principles, policies and general pensions legislation. They are able to correctly assess the impact any changes to the Scheme will have on members and make adequate plans to deal with such changes. All areas of Trustee Knowledge and Understanding are included on the Trustees' compliance checklist which is reviewed and updated at every Trustees' meeting.

The Trustees' relevant knowledge and understanding has been assessed during the year. A training log is maintained by the Company and updated following every Trustees' meeting.

Training is provided on relevant issues at meetings and areas for further training are identified.

As a result of the training activities completed by the Trustees, and taking into account the professional advice available to them, the Trustees are confident that their combined knowledge and understanding enables them to undertake their duties competently and in the best interests of the Scheme membership. Furthermore, the Trustees assess that their degree of knowledge and understanding is appropriate for the purposes of enabling the proper exercise of functions as the Trustees of the Scheme.

The Trustees are aware of the need to remain impartial whilst making decisions and therefore, should they feel there is a conflict of interest or potential conflict of interest, they will act in accordance with their conflicts of interest policy to manage their conflicts.

Value for Members

During the Scheme year, the Trustees continued to monitor the Scheme and its practices to check that it continues to provide good value for members and completed a full 'value for members' review.

The Trustees looked at the services members pay for over the four core areas detailed in the Pensions Regulator's guidance: administration, investment governance, communications, scheme management and governance. The Trustees recognise that the only services that members routinely pay for are in relation to the investment of members' accounts. In other words, the only costs borne by members are the charges and transaction costs that apply to the investment of their accounts. Other charges can be incurred, including transaction costs for additional quotations or switches and payment of fees in relation to divorce purposes, but these are ad-hoc.

A benchmarking exercise was undertaken as at 5 April 2019 to analyse whether the funds offered by the Scheme provide value for members in terms of performance and the fees charged. In summary, the fees for current funds and performance, as far as a comparison can be made, appear broadly comparable with other institutional providers.

The Trustees concluded in their review that the Scheme provides value for members.

Core Financial Transactions

The Trustees are required to report the processes and controls in place in relation to the 'core financial transactions', including but not limited to, investment of contributions, transfer

of member assets from the Scheme, investment switches and payments out of the Scheme to members/beneficiaries.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. The responsibility for this is held by the Scheme administrator, Quantum Advisory, who provides regular reports to the Trustee Board to assess the speed and effectiveness of the core scheme financial transactions, in line with the Service Level Agreement set between the Company and the Scheme administrator.

Quantum has set internal service level standards, under which most calculations are to be completed within ten working days. As part of Quantum's Audit and Assurance Faculty internal controls, standards are monitored at least weekly by Team Leaders to ensure service levels are met. The Trustees are updated with Quantum's performance against their Service Level Agreement annually.

The core financial transactions include:

- The investment of contributions to the Scheme (within three working days).
- The transfer of assets relating to members into and out of the Scheme.
- The movement of assets relating to members between different investments within the Scheme (e.g. fund switching).
- Payments from the Scheme to, or in respect of, members and their beneficiaries.

The Trustees are pleased to report that in the last Scheme year there were no material administration service issues and all core financial transactions were processed promptly and accurately. The Trustees also ensure that core financial transactions are processed promptly and accurately by having the Scheme auditor independently test monthly contributions for timeliness and compliance with the Payment Schedule, as part of the annual audit process.

Charges and transaction costs

The Total Expense Ratio (TER) that applied to the Scheme's default arrangement over the year to 5 April 2019 is detailed in the table below. The default strategy is designed for members who wish to take their benefits as cash at retirement. Lifestyle switches under the default investment strategy are conducted on a quarterly basis.

| Funds | Years to retirement | TER |
|--|--------------------------|----------------|
| 100% Legal & General World Equity Index Fund | Over 10 years | 0.14% |
| 5% per quarter switch to Baillie Gifford Multi Asset Growth Fund | 10 years to 5 years | 0.14% to 0.49% |
| 100% Baillie Gifford Multi Asset Growth Fund | 5 years to 2 years | 0.49% |
| 12.5% per quarter switch to Legal & General Cash Fund | Under 2 years | 0.49% to 0.10% |
| 100% Legal & General Cash Fund | At target retirement age | 0.10% |

The TER sets out the total annual costs involved in running an investment fund. This includes the Annual Management Charge, plus other charges incurred in administering the fund (including, but not limited to, share registration fees, legal fees, auditor fees and custodian fees).

As can be seen, the total charge that applied to the default investment strategy at the end of the year did not exceed the 'charge cap' of 0.75%. The charge cap is actually assessed against a different measure of the costs that apply to the funds, known as the Member Borne Deduction (MBD). The MBD can be considered to be the same as the TERs shown above.

The charges applicable to the funds offered under the Scheme, which are not part of the default arrangement, are:

| Fund name | Asset class | TER |
|---|-------------|-------|
| Legal & General World Equity Index Fund | Equity | 0.14% |
| Legal & General Ethical Global Equity Index | Equity | 0.35% |
| Legal & General UK Equity Index | Equity | 0.09% |
| Baillie Gifford Multi Asset Growth Fund | DGF | 0.49% |
| Legal & General Property | Property | 0.72% |
| Legal & General AAA-AA-A Corporate Bond Index | Bonds | 0.13% |
| Legal & General Pre-Retirement | Bonds | 0.13% |
| Legal & General Over 15 Year Gilt Index | Gilts | 0.08% |
| Legal & General Cash Fund | Cash | 0.10% |

The transaction costs applicable during the last Scheme year were:

| Fund name | Transaction cost |
|---|------------------|
| Legal & General World Equity Index Fund | 0.007% |
| Baillie Gifford Multi Asset Growth Fund | 0.484% |
| Legal & General Over 15 Year Gilt Index | -0.001% |
| Legal & General Cash Fund | 0.000% |

Some transaction costs are negative due to the prescribed method for calculating them.

Transaction costs are incurred as a result of buying, selling, lending or borrowing investments. The costs mainly arise as a result of delivering a fund's target investment return where a passive or active investment approach is used. As an example, a fund may need to buy or sell assets when members pay money into or take money out of a fund and the buying or selling of assets will incur costs.

Transaction costs arise as a result of participating in a financial market and are separate from any annual management charges. The transaction cost for buying or selling an investment includes all costs incurred by a buyer or seller from the point an order to transact is received to the point at which the transaction completes.

These costs include all charges, commissions, taxes and other associated payments incurred directly or indirectly. These costs are ultimately borne by assets of the arrangement or of any investment in which the arrangement is directly or indirectly invested. Of these costs, some are easily identifiable as specific costs incurred, but some are less identifiable and may rely on the investment manager's judgement.

The default strategy's performance is regularly monitored at Trustees' meetings. The funds' performance in the default strategy has lagged their targets over the year and the Trustees are currently reviewing these funds in conjunction with their investment advisers, Quantum Advisory. Performance for the default strategy is shown in the table below:

| Member's term to retirement | Performance over the year to 31 March 2019 |
|-----------------------------|--|
| Over 10 years | 11.3% |
| 10 years to 5 years | Between 11.3% and 1.2% |
| 5 years to 2 years | 1.2% |
| Under 2 years | Between 1.2% and 0.6% |
| At target retirement age | 0.6% |

Default investment strategy

The default investment strategy is chosen by the Trustees. All funds for employees who are automatically enrolled into the DC Section are invested in this strategy. However, members can choose to invest in some alternative funds.

The Trustees, with the help of their advisers, set the investment strategy and are responsible for monitoring the investment strategy. The Trustees do so, with the best and sole interest of the members and beneficiaries and in a manner which helps ensure the members' accounts can grow, without taking undue risk.

During the year, the Trustees finalised their review of the default investment strategy, investment objectives and the performance of the default arrangement. They also looked at other investment options to determine if any other strategies are more suitable for the Scheme and its members. Following the review, the Trustees decided to implement the following changes:

1. Utilise an investment platform to benefit from lower charges
2. Replace the Global Equity (70:30) Index Fund in the growth phase with an alternative equity fund
3. Introduce a diversified growth fund to the de-risking phase to target taking benefits as cash at retirement instead of as an annuity.
4. Extend the lifestyling period to ten years.
5. Offer nine self-select funds with a mix of asset classes.

Details of the default investment strategy and investment objectives of the arrangement are recorded in the Statement of Investment Principles – included as appendix 1 to the Chair's Statement.

General Data Protection Regulation (GDPR)

During the Scheme year, the Trustees, along with the assistance of their advisers, finalised work on ensuring the Scheme and its practices are compliant with the GDPR legislation.

Illustration of costs and charges

Active member

The figures in the table overleaf show the effect of the fund managers' charges on an active member's fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below.

Projected Pension Account in today's money - active members

| Projected Pension Account in today's money - active members | | | | | | | | |
|---|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|----------------------|------------------------------------|
| | Fund choice | | | | | | | |
| | Default investment strategy | | Legal & General World Equity Index | | Baillie Gifford Multi Asset Growth | | Legal & General Cash | |
| Years | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted |
| 1 | £65,300 | £65,200 | £67,100 | £67,000 | £66,800 | £66,500 | £64,600 | £64,600 |
| 3 | £77,900 | £77,100 | £81,000 | £80,700 | £80,000 | £79,000 | £72,900 | £72,800 |
| 5 | £91,700 | £90,100 | £96,100 | £95,500 | £94,100 | £92,200 | £81,200 | £80,900 |
| 10 | £132,000 | £128,000 | £139,000 | £138,000 | £134,000 | £129,000 | £102,000 | £101,000 |
| 15 | £182,000 | £176,000 | £191,000 | £188,000 | £181,000 | £171,000 | £123,000 | £121,000 |
| 20 | £242,000 | £233,000 | £255,000 | £249,000 | £237,000 | £220,000 | £143,000 | £142,000 |
| 25 | £315,000 | £302,000 | £331,000 | £323,000 | £302,000 | £277,000 | £164,000 | £162,000 |
| 30 | £403,000 | £385,000 | £424,000 | £411,000 | £380,000 | £342,000 | £185,000 | £181,000 |
| 35 | £510,000 | £484,000 | £536,000 | £517,000 | £472,000 | £418,000 | £206,000 | £201,000 |
| 40 | £639,000 | £604,000 | £672,000 | £645,000 | £581,000 | £505,000 | £226,000 | £221,000 |

Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £60,500.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to continue to retirement age based on the core minimum contribution rate. Contributions are based on a current salary of £41,500 pa which will increase in line with assumed earnings inflation of 2.5% each year.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
 - a. Default investment strategy from 3.59% to 6.33% pa depending on how close you are to retirement
 - b. Legal & General World Equity Index Fund: 6.50% pa
 - c. Baillie Gifford Multi Asset Growth Fund: 6.00% pa
 - d. Legal & General Cash Fund: 2.50% pa.

Deferred member

The figures in the table overleaf show the effect of the fund managers' charges on a deferred member's fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below the table.

Projected Pension Account in today's money - deferred members

| Projected Pension Account in today's money - deferred members | | | | | | | | |
|---|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|----------------------|------------------------------------|
| | Fund choice | | | | | | | |
| | Default investment strategy | | Legal & General World Equity Index | | Baillie Gifford Multi Asset Growth | | Legal & General Cash | |
| Years | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted | Before charges | After all charges & costs deducted |
| 1 | £43,800 | £43,700 | £45,000 | £44,900 | £44,800 | £44,600 | £43,300 | £43,300 |
| 3 | £46,500 | £46,000 | £48,600 | £48,400 | £47,900 | £47,200 | £43,300 | £43,200 |
| 5 | £49,700 | £48,800 | £52,400 | £52,100 | £51,200 | £50,000 | £43,300 | £43,100 |
| 10 | £59,600 | £57,500 | £63,500 | £62,700 | £60,600 | £57,800 | £43,300 | £42,900 |
| 15 | £72,100 | £69,200 | £76,900 | £75,400 | £71,700 | £66,800 | £43,300 | £42,700 |
| 20 | £87,300 | £83,300 | £93,100 | £90,700 | £84,700 | £77,200 | £43,300 | £42,500 |
| 25 | £106,000 | £100,000 | £113,000 | £109,000 | £100,000 | £89,300 | £43,300 | £42,300 |
| 30 | £128,000 | £121,000 | £137,000 | £131,000 | £119,000 | £103,000 | £43,300 | £42,100 |
| 35 | £155,000 | £145,000 | £165,000 | £158,000 | £140,000 | £119,000 | £43,300 | £41,800 |
| 40 | £188,000 | £174,000 | £200,000 | £190,000 | £166,000 | £138,000 | £43,300 | £41,600 |

Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £43,300.
3. Inflation is assumed to be 2.5% each year.
4. No further contributions are assumed.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
 - a. Default investment strategy from 3.59% to 6.33% pa depending on how close you are to retirement
 - b. Legal & General World Equity Index Fund: 6.50% pa
 - c. Baillie Gifford Multi Asset Growth Fund: 6.00% pa
 - d. Legal & General Cash Fund: 2.50% pa.