

Trustee's Report (continued)

DC Governance Statement

Introduction

I am pleased to present the Trustee's annual statement of governance, covering the period 1 October 2017 to 30 September 2018.

The Scheme's mission is to help members attain a good financial outcome for life after work. This statement describes the work that the Trustee has done to achieve that, and how it seeks to ensure that the Scheme is well-managed and delivers excellent services to members. In doing so, the Trustee provides the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This statement covers five key areas:

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

Trustee's Report (continued)

DC Governance Statement (continued)

1. The Scheme's default investment arrangements

The Trustee's Statement of Investment Principles (see Appendix III to the financial statements) in relation to the Scheme's default investment arrangements is attached. This covers the aims and objectives of the default investment arrangements as well as its policies in relation to matters such as risk and diversification. It also states why the Trustee believes the default investment arrangement to be designed in members' best interests.

The assets of the DC Section are invested with Legal & General Investment Management ('LGIM') with some members also have AVC assets in funds managed by Standard Life. There are four pools of DC assets: The Pension Savings Plan 2001 ('PSP'), the Employee Pension Plan ('EPP'), the Transfers In and the AVCs.

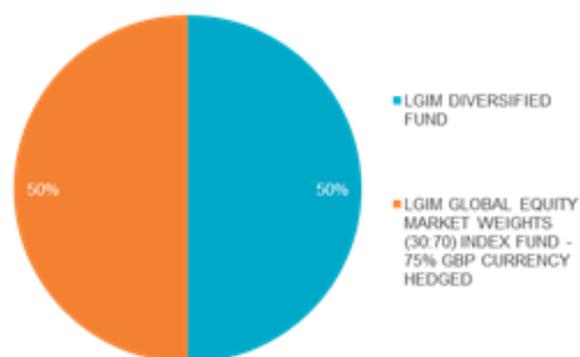
The most recent review of the suitability of the default investment arrangements was completed by the Trustee in August 2018. The review took into account recent industry retirement trends and member demographics including age and pot size. The Trustee agreed to make some changes to the default strategy and the self-select fund range in 2019 as a result of the review. These changes are noted below.

The Trustee currently offers three lifestyle strategies:

- **Annuity Lifestyle Strategy** – for those planning to buy a level annuity (a fixed pension income for life) at their target retirement date. This is the current default investment option for PSP members that do not make their own investment decision. The Trustee has decided to change the default investment option for PSP members to the Drawdown Lifestyle Strategy.
- **Cash Lifestyle Strategy** - for those planning to take their DC savings as a cash lump sum. This is the default investment option for EPP members that do not make their own investment decision.
- **Drawdown Lifestyle Strategy** - for members planning to leave their DC savings invested and withdraw income flexibly over time. Members who wish to drawdown their savings in retirement would have to transfer their DC savings out of the Scheme at retirement to a drawdown provider.

Currently, all three strategies invest per the allocation shown in the pie chart to the right until members reach eight years before their Target Retirement Date. After the eight-year point:

- Investments in the Annuity Lifestyle Strategy are switched into the LGIM Pre-Retirement fund and the LGIM Sterling Liquidity Fund.
- Investments in the Cash Lifestyle Strategy are switched into the LGIM Sterling Liquidity Fund.

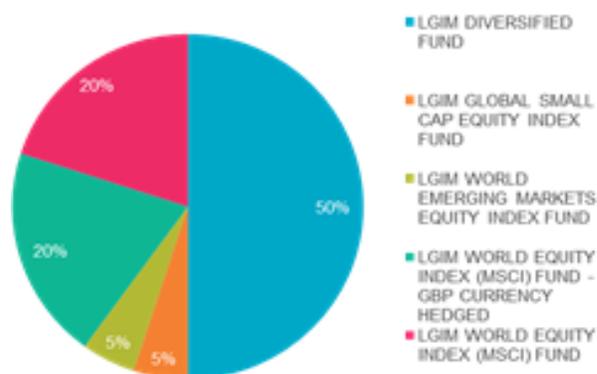


Trustee's Report (continued)

DC Governance Statement (continued)

1. The Scheme's default investment arrangements (continued)

The Trustee has decided to replace the allocation to the LGIM Global Equity Market Weights (30:70) Index Fund – 75% GBP Currency Hedged to a more diversified blend of equity funds. The new allocation of the initial phase is shown in the chart to the right. The reason for the change is to improve the expected risk-adjusted return over the long term.



The proportion of a member's fund invested in the Diversified, Pre-Retirement and Cash Funds at a member's Target Retirement Date will depend on which lifestyle strategy the member is invested in. The Trustee decided that members invested in the Drawdown Lifestyle Strategy will gradually be switched into 75% LGIM Retirement Income Multi-Asset Fund and 25% LGIM Sterling Liquidity by the Target Retirement Date.

The Trustee has decided to change the default investment option for PSP members to the Drawdown Lifestyle Strategy and maintain the Cash Lifestyle Strategy as the default investment option for EPP members, based on the profile of the respective membership. However, members have complete freedom to choose whichever lifestyle strategy suits their needs from those listed above. The additional funds that will be incorporated into the lifestyle strategies will also be made available as self-select options.

The Trustee reviews how the funds within the Scheme's default investment arrangements (and the wider self-select fund options) have performed against their targets at each of their quarterly meetings, taking input from its professional investment advisors. The Trustee also maintains a programme of ongoing review of the suitability of the default arrangements in light of considerations that include how members withdraw benefits at retirement, the ages at which they do so and the size of their funds.

2. The processing of Scheme financial transactions

The Trustee recognises that delay and error in processing transactions can cause significant losses for members. Delays in processing can also cause members to lose faith in schemes which may in turn reduce their propensity to save and impair future outcomes. The Trustee therefore operates measures and controls aimed at ensuring that all financial transactions (such as benefit payments and switches between funds) are processed promptly and accurately.

The Scheme's administration is outsourced to Capita Employee Benefits Limited ('Capita'). As part of that model, the Trustee has agreed timescales with Capita for the processing of all member-related services, including core financial functions such as benefit quotations, investment switches and benefit payments. These timescales are well within any applicable statutory timescale and are summarised in table 1 in Appendix IV. This appendix also records the main measures and controls that the Trustee operates to satisfy themselves that the Scheme's financial transactions are both prompt and accurate, including regular evaluation of Scheme data and reporting of all member complaints to the Trustee.

Trustee's Report (continued)

DC Governance Statement (continued)

2. The processing of Scheme financial transactions

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

- Its administrators record all member transactions and benefit processing activities in a work management system which assigns the relevant timescale to the task. They must disclose quarterly to the Trustee their performance against these agreed timescales. These disclosures are considered by the Trustee at its quarterly meetings.
- The Trustee requires additional disclosures in respect of any transactions and benefit processing activity that have not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures. None of the breaches of agreed timescale during the period covered by this statement are regarded as a matter for significant concern. The Trustee has been monitoring and discussing delays in the payment of transfer values with Capita during the Scheme year. The Trustee has ongoing dialogue with Capita and has also met them to resolve any issues.

For the period being reported, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly during the period to which this Statement relates.

3. Charges and transaction costs within the scheme

The Trustee benchmarks LGIM's charges against comparable alternatives and has negotiated with fund managers accordingly. It regards this process as fundamental to its mission of helping members achieve good outcomes, given the potential for investment-related charges to erode members' fund sizes. At the same time, the Trustee does not regard value as solely about achieving the lowest costs - rather, it is a measure of the extent to which economic outlays (or 'price') are converted to provide the performance targets (or 'performance') for members that the Trustee seeks to achieve.

As required by the Administration Regulations, the Trustee is required to report on the charges and transaction costs for the investments used in the default investment option as well as the wider fund choice available and assess the extent to which the charges and costs represent good value for members.

Appendix V shows the total expense ratio for each of the funds underlying the Scheme's default investment arrangements as well as the wider self-select fund range and AVC arrangements. The Total Expense Ratio ('TER') comprises the investment manager's annual charge for managing and operating a fund, but also includes the costs of other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, it excludes other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings.

Each of the funds in the default investment arrangements are available to members on a self-select basis. Additionally six further funds are available to self select members, shown in Appendix III.

Reporting of Costs and Charges

Using the charges and transaction cost data provided by LGIM and Standard Life Investments, and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. Details of the illustration can be found in appendix III.

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4. Value for members considerations

The Trustee is committed to ensuring that members receive good value in respect of the DC and AVC arrangements in place within the Scheme. In conjunction with their professional advisors, they undertook a value for members assessment, in accordance with regulation 25(1)(b)

There is no legal definition of "good value", so the process of determining good value is a subjective one. Therefore, the Trustee assessment examines the current investment management charges relative to standard institutional fees, as well as looking at the fees for equivalent size mandates, Mercer Manager Research Ratings and historical performance. The review concluded that the Scheme's overall benefits and options represent **good value for money** in comparison to the costs payable by members. The reasons underpinning this conclusion include:

- Charges for the Scheme's funds used by the default investment arrangements are significantly below the charge cap of 0.75% per annum;
- Charges for the majority of funds have been assessed by its advisors as comparing favourably with those of peer funds.
- The funds used by the Scheme are highly rated by its investment advisors as having good prospects of achieving their risk and return objectives.
- The performance of the majority of the Scheme's funds over the 3 years (or 1 year where more recent inception) to 30 September 2018 compare favourably relative to the performance benchmarks set by the Trustee.

Additionally, the Company pays for all administration, member communication and advisory costs associated with operating the Scheme. The Trustee has appointed a specialist pensions communication agency to help it develop a communications strategy.

As mentioned previously some members also have AVC assets in funds managed by Standard Life. The 2018 assessment concluded that the Standard Life Managed Fund was not providing good value for money. During the investment strategy review in August 2018, the Trustee also considered the ongoing investment into this fund and is considering the potential options for its replacement to be implemented in early 2019.

Additionally, the Value for Members assessment highlighted that the charges for the Emerging Markets Equity Fund and Corporate Bond Fund are above the typical range for a fund of that type. The Trustee will work with LGIM to ensure that the overall fees paid by members are competitive and continue to monitor the performance of the funds offered to members

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5. Trustee's Knowledge and Understanding (TKU)

Section 247 and 248 of the Pensions Act 2004 require individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

Trustees must also be conversant with the Scheme's own documentation. These are described in legislation as the trust deed and rules and the statement of investment principles. Trustees must also be conversant with any other document recording current policy relating to the administration of the Scheme generally.

Appendix VI shows how these duties have been fulfilled and how the combined knowledge and understanding, together with the advice which is available to the Trustee Directors, enables them to properly exercise their duties and responsibilities.

All of the Trustees in office during the period have completed the Pension Regulator's Trustee Toolkit. New Trustees are required to complete the toolkit within 6 months of their appointment.

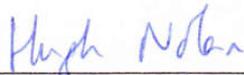
Taking into account the review carried out by the trustee body, and the professional advice available to them, the Trustee Board consider they are properly enabled to exercise their function as Trustees.

The Trustee will also, on an ongoing basis, review and assess whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.

Chair's declaration

I confirm that the above statement has been produced by William Hill Trustee Limited.

Signature:



Name:



Chair of William Hill Trustee Limited
April 2019