

# DC Governance Statement

Prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (The "Regulations")

## 1. Introduction

- 1.1 I am pleased to present the Trustee's statement of governance.
- 1.2 This statement describes how the Trustee has governed the DC sections of the Plan during the period. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.
- 1.3 The statement covers four principal areas:
  1. Investment arrangements.
  2. Internal controls, with particular focus on the processing of core financial transactions.
  3. Value, including charges and transaction costs deducted from members' funds.
  4. The knowledge and resources available to the Trustee, including how the Trustee maintained the statutory levels of knowledge and understanding to govern the Plan and how these help the Trustee to ensure that the Plan is governed effectively.
- 1.4 The Plan is a hybrid scheme with a Defined Benefit (DB) section which closed to new members on 30 September 2007. It has three DC sections, namely, Career Choices, KWS (Wales) (both closed to new members and new contributions for a number of years) and Additional Voluntary Contributions (AVCs) which are used by members to supplement their DB benefits. Across the Career Choices and KWS (Wales) sections, there are fewer than 160 members with DC accounts. Having considered the nature of the benefits, the average fund values involved and the relatively small numbers of members in these arrangements, the Trustee has been progressing options for rationalisation with a view to securing the benefits with an insurer, in order to ensure that Plan members receive good value for money across a range of measures.

## 2. Investment arrangements

- 2.1 The Trustee believes that there are no funds or strategies that would fall into the definition of a default fund in relation to a which a charge cap applies across the DC arrangements.  
*Career Choices Section*
- 2.2 For the Career Choices section of the Plan, when this section was open contributions were invested in a multi-asset fund managed by Legal & General Investment Management ("L&G).
- 2.3 This fund invests in equities, fixed income, cash and alternative assets, and aims to achieve long term growth above inflation, but with lower levels of risk than would be delivered by a pure equity fund. L&G seek to do this by investing in markets that are diversified by country, asset class, sector and currency. The fund is managed primarily on a passive (index-tracking) basis.  
*KWS (Wales) Section*
- 2.4 This section of the Plan made available to members a lifestyle investment strategy designed to meet the needs of those intending to take 25% of their benefits in the DC section as cash, and to buy an annuity with the remaining 75%.
- 2.5 The lifestyle strategy comprises investment in a UK and overseas equity fund managed by BlackRock during the "growth" phase of the strategy. This fund seeks to provide long term returns above inflation. Over a five-year period, assets invested in the strategy are progressively transferred to an index-linked gilt fund and a cash fund to seek to "match" annuity prices and cash benefits respectively.

## DC Governance Statement (continued)

### 2. Investment arrangements (continued)

#### *Governance of the Investment Arrangements*

- 2.6 The Trustee monitors the DC and AVC fund performance throughout the year. Factsheets showing performance details along with other information are available to members online through the investment managers' websites.
- 2.7 As noted in the introduction, the Trustee is working to consider future options for the DC Sections of the Plan, in light of its closed status. This has included a full review of the investment arrangements, undertaken in 2018.
- 2.8 The review, along with a review of wider elements of the DC arrangements, included consideration of:
- The demographic profile of the members in our Plan with DC benefits.
  - How this profile might influence the type of retirement benefits that typical members will seek to access when they take their savings from the Plan.
  - Analysis of the range of investment funds available to members, including those used in the current arrangements, and whether they remain appropriate.
  - Consideration of the charges associated with the current investment fund range, and how these charges compare with alternative arrangements that might be possible.
  - Exploration of alternative options outside of the Plan, primarily the potential to secure the DC benefits with an insurer. Following discussion at a series of meetings, with input from our independent DC advisor, this latter option is now being progressed further.

### 3. Internal controls and core financial transactions

- 3.1 Under the Regulations, the Trustee is required to report to you about the processes and controls in place in relation to the "core financial transactions". These include, for example, transferring assets relating to DC members into or out of the Plan, transferring assets between different investments within the Plan, and making payments from the Plan to or on behalf of DC members. In practice, the Trustee delegates responsibility for this to the Plan administrators. The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:
- Appointing professional third party administrators, Capita and Aviva.
  - Having in place Service Level Agreements (SLAs) with the administrator to the Career Choices section (Capita), which are monitored by the Trustee every three months. These SLAs cover both accuracy and timeliness of core financial transaction processing, and the Trustee meets with the administrator regularly, including at Trustee board meetings in order to review administration service levels and related matters. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.
  - If administration service levels fall below 100%, the reasons for this outcome are discussed with the administrator, and the Trustee seeks commitments from the administrator and implements remedial plans to ensure improvement of service levels.

## DC Governance Statement (continued)

### 3. Internal controls and core financial transactions (continued)

- If any delays are experienced by members on administration queries, Capita reports each quarter to the Trustee on those delays and the reasons why, categorising each such instance for example by “Due to receiving information late” or “Due to a third party not responding in a timely manner”, among other reasons. This reporting, and discussions at meetings, gives the Trustee insight into member activity, completion timescales for administrative functions and the reliability of the administration controls and enables the Trustee to actively engage with the administrators to ensure good member service.
- As regards the administrator of the DC benefits in the KWS (Wales) section, Aviva, the Trustee receives an annual report from Aviva which documents transactional activity. Given the nature of this arrangement, which is small, closed to new members and contributions, such activity is typically minimal.
- Ensuring that detailed disaster recovery plans are in place with the administrators and other relevant third parties.
- Maintaining a risk register which includes risks in relation to core financial transactions.
- The administrators provide an AAF internal controls audit report each year.
- Member data spot-checks are carried out periodically and any inconsistencies addressed through close working between the administrators and the Trustee’s in-house team.

3.2 The Trustee is pleased to confirm that there have been no administration issues impacting the DC sections of the Plan over the course of the reporting period.

### 4. Value, charges and transaction costs

- 4.1 The Trustee believes that the 0.75% default charge cap requirements do not apply to any of the DC arrangements within the Plan.
- 4.2 The Plan offers investment funds with charges ranging from 0.25% p.a. to 0.65% p.a. for the funds in which members have invested. These are reviewed annually in some detail to ensure that the provider remains credible; that the fund range is suitable for purpose; that each member is receiving value for money from their DC arrangement; and that performance of the funds is in line with reasonable expectations.
- 4.3 The Trustee is satisfied however that whilst the funds available to DC members are not subject to the default cap, the charges for those funds in which members are invested are reasonable, competitive in comparison to other arrangements, and help to deliver good outcomes for members.
- 4.4 In relation to transaction costs, note that when buying and selling investments, transaction costs can be incurred. These costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity. The Trustee has requested transaction cost information from the fund providers for both sections of the Plan and the information received is shown later in this statement.

## DC Governance Statement (continued)

## 4. Value, charges and transaction costs (continued)

The Trustee considers transaction costs across three areas:

- a) Transaction costs incurred as part of changes in the investment funds which comprise the lifestyle arrangement.
- b) Transaction costs incurred by having funds automatically switched within the lifestyle arrangement.
- c) Transaction costs incurred in the normal day-to-day running of the investment funds used by the Plan, for all funds.

The Trustee is satisfied the transaction costs disclosed by the fund providers are reasonable and deliver value for members in terms of what they provide.

*Charges and Transaction Costs as at 31 March 2019*

| Fund  | Total Expense Ratio % p.a.  | Transaction Costs % p.a. |
|---|---|--------------------------|
| <i>Career Choices Section</i>                 |   |                          |
| L&G Multi-Asset (was consensus)               | 0.25  | 0.01                     |
| <i>KWS (Wales) Section</i>                    |   |                          |
| BlackRock Global Equity 60:40 Index           | 0.65  | 0.09                     |
| BlackRock (60:40) Global Equity (Ascent)      | Fund was closed and transferred to BlackRock Global Equity 60:40 Equity Index Fund in early 2019, therefore not available |                          |
| BlackRock Cash                                | 0.65  | 0.02                     |
| BlackRock Over 15 Year Gilt Index             | 0.65  | 0.02                     |
| BlackRock Over 5 year Index Linked Gilt Index | 0.65  | 0.01                     |

Source: L&G and Aviva. "Total expense ratio" reflects the total costs associated with managing and operating a fund, including management fees, legal fees, fund management auditor fees and any other expenses within the fund.

- 4.5 In relation to funds where transaction costs are not available from the fund provider, the Trustee will continue to request this information in order that consideration can be given to all costs and charges.
- 4.6 The Trustee has assessed the extent to which the Plan's charges and transaction costs, along with other aspects of the Plan, including communications and Plan governance, represent good value for members. We have concluded that, for the fund options that are available, the Plan offers good value for money relative to peers (using investment manager median fee levels). However, we also recognise that as the DC sections are small, with only deferred members invested, there are limits to the range of services and benefit flexibilities that can be offered to members through the Plan. As such we intend to continue to communicate clearly with our members so that the options they have are understood, alongside progressing further work on consolidation and future investment design as noted previously and below.
- 4.7 In light of the expected transfer of the DC benefits within the Career Choices and KWS (Wales) Sections of the Plan to alternative arrangements, we note that the DC benefits of the Plan are not expected to continue in their current form beyond the next 12 months. However, for completeness we have prepared illustrations of the potential impact of costs and charges over time for Plan members.
- 4.8 Using the charges and transaction cost data provided by the investment managers, and in accordance with regulation 23(1)(ca) of the Administration 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. The statutory guidance provided has been considered when providing these examples.

## DC Governance Statement (continued)

## 4. Value, charges and transaction costs (continued)

*Impact of Costs and Charges*

4.9 To make this representative of the membership, the Trustees have based this starting at the youngest member age for each section, using this as the starting point. In line with the Plan's closed nature, no future contributions have been assumed.

*Career Choices Section*

| Year End Age | Default arrangement and only fund choice: L&G Multi Asset Fund |                                     |
|--------------|--|-------------------------------------|
|              | Pot Size with no Charges Incurred<br>£                         | Pot Size with Charges Incurred<br>£ |
| 35           | 9,769  | 9,668                               |
| 40           | 10,823   | 10,572                              |
| 45           | 11,990   | 11,561                              |
| 50           | 13,284   | 12,643                              |
| 55           | 14,717   | 13,826                              |
| 60           | 16,305   | 15,119                              |
| 65           | 18,064   | 16,534                              |

Notes:

- Projected pension pots are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- The starting pot size is assumed as the average of the youngest 5 members. As the Plan has few members at the youngest age this approach has been taken in order to be broadly representative.
- Values are estimates and are not guaranteed
- The projected growth rate for each fund is in line with the Career Choices Section's Statutory Money Purchase Illustration assumptions, adjusted to allow for inflation.

*KWS (Wales) Section*

| Year End Age | Most Popular Default Lifestyle    |                                | Highest Assumed Return and Most Expensive BlackRock Global Equity 60:40 Index |                                | Lowest Assumed Return: BlackRock Over 15 Year Gilt Index |                                | Least Expensive BlackRock Over 5 year Index Linked Gilt Index |                                |
|--------------|-----------------------------------|--------------------------------|---|--------------------------------|--|--------------------------------|---|--------------------------------|
|              | Pot Size with no Charges Incurred | Pot Size with Charges Incurred | Pot Size with no Charges Incurred   | Pot Size with Charges Incurred | Pot Size with no Charges Incurred                        | Pot Size with Charges Incurred | Pot Size with no Charges Incurred                             | Pot Size with Charges Incurred |
| 30           | 11,692                            | 11,519                         | 11,692  | 11,519                         | 10,786   | 10,641                         | 10,784  | 10,641                         |
| 35           | 13,618                            | 12,925                         | 13,618  | 12,925                         | 10,269   | 9,795                          | 10,262  | 9,795                          |
| 40           | 15,861                            | 14,503                         | 15,861  | 14,503                         | 9,777  | 9,016                          | 9,766   | 9,016                          |
| 45           | 18,473                            | 16,273                         | 18,473  | 16,273                         | 9,309  | 8,299                          | 9,294   | 8,299                          |
| 50           | 21,516                            | 18,260                         | 21,516  | 18,260                         | 8,863  | 7,639                          | 8,844   | 7,639                          |
| 55           | 25,060                            | 20,489                         | 25,060  | 20,489                         | 8,438  | 7,032                          | 8,416   | 7,032                          |
| 60           | 29,188                            | 22,991                         | 29,188  | 22,991                         | 8,034  | 6,473                          | 8,009   | 6,473                          |
| 65           | 30,134                            | 22,922                         | 33,995  | 25,798                         | 7,649  | 5,958                          | 7,622   | 5,958                          |

Notes:

- Projected pension pots are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- The starting pot size is assumed as the average of the youngest 5 members. As the Plan has few members at the youngest age this approach has been taken in order to be broadly representative.
- Values are estimates and are not guaranteed
- The projected growth rate for each fund is in line with the KWS (Wales) Section's Statutory Money Purchase Illustration assumptions, adjusted to allow for inflation.

## DC Governance Statement (continued)

### 5. Trustee knowledge and understanding

- 5.1 The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) has been met during the Plan year by the Trustee as a body in dealing with the whole Plan (not just the DC Sections).
- 5.2 The DC arrangements are discussed at every Trustee meeting, with dedicated time on the agenda.
- 5.3 Our training approach includes:
- Two Trustee training day sessions each year with presentations from advisors and guest speakers covering a wide range of relevant issues, including those matters which affect the DC sections. Over the Plan year, these training days were held on 4 May 2018 and 6 November 2018. Topics covered included:
    - Environmental, Social and Governance considerations.
    - Investment Beliefs.
    - Investment Governance.
    - Data Protection.
    - Cyber Security.
    - Member options.
    - Balance of Powers in the Plan Rules.
  - Event-driven training on specific issues that the Trustee has addressed so that learning was timely and relevant to matters under consideration for decision.
  - Regular legal, actuarial and investment updates at quarterly Trustee and sub-committee meetings, including general and technical updates from advisors where relevant.
  - Specific training sessions for new Trustee Directors, as appropriate.
- 5.4 All Trustee Directors have undertaken the Pension Regulator's trustee toolkit and received one-to-one training in the areas of actuarial, investment and legal knowledge with our advisors and the Plan secretary. 'On-the-job' learning also takes place at Trustee board meetings. Beyond this, Trustee Directors are expected to demonstrate that they continue to undertake their own training and a record of this is kept and reviewed annually by the Chair as part of individual Trustee Directors' annual appraisals.
- 5.5 An independent professional Trustee has been appointed as Chair, who has a wide range of experience and skills to complement the knowledge and understanding of the employer and member-nominated Trustee Directors.
- 5.6 The Trustee has undertaken an assessment of the Plan against the DC Code of Practice 13 (the "DC Code"). This activity included consideration of the Plan's Additional Voluntary Contribution (AVC) arrangements.
- 5.7 The Trustee considers that its systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice and related guidance.

## DC Governance Statement (continued)

### 5. Trustee knowledge and understanding (continued)

5.8 As a result of the training and governance activities which have been completed by the Trustee Directors individually and collectively as a board, and taking into account the professional advice available to the Trustee, the Trustee is confident that the combined knowledge and understanding of the board enables us to exercise properly our functions as the trustee of the Plan.

The Statement was approved by the Trustee and signed on its behalf by:



.....  
**Chair of Trustee Kelda Group Pension Plan**