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 or 'Chair Statement'.

1.2 This statement describes how the Trustee has governed the DC arrangements within the Plan during the year to 31st March 2020. 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 two Defined Contribution ('DC') benefit sections, namely, Career Choices and KWS (Wales), which are both closed to new members and new contributions, consolidated within one Defined Contribution Section. It also has Additional Voluntary Contributions (AVCs) which are used by members to supplement their DB benefits.

1.5 In reviewing the Career Choices and KWS (Wales) DC arrangements, and having considered the average fund values involved, the relatively small numbers of members in these arrangements and the opportunities for better value for members available elsewhere, the Plan's Principal Employer, after consulting the Trustee, decided in 2019 to commence wind up of each of the two DC categories of the Plan and triggered the winding up of the DC Section.

1.6 The Trustee wrote to members on 6th January 2020 to notify them of the wind up and wrote to them again on 6th March 2020 to inform them of their benefit options in relation to the wind up. Members who did not elect to receive a Winding Up Lump Sum or a transfer to an alternative pension arrangement by 15th May 2020 had their DC savings within the DC Section transferred to a Trustee Buy Out Policy with Legal & General in July 2020. Following the transfer of all of the assets and liabilities of the Plan relating to the DC Section, the winding up of the DC Section was completed in early September 2020.

1.7 Note that the disclosures in this Chair Statement relate only to the Plan's DC arrangements. Even though the Plan's DC Section has been fully wound up following the end of the year to 31 March 2020 to which these accounts relate, this Chair Statement includes information that would be relevant had that winding up not occurred, but excludes information that is no longer relevant after conclusion of that winding up.

2. Investment arrangements

2.1 The DC arrangements have never been used as a 'qualifying scheme' for auto enrolment purposes. The Trustee has therefore not operated a default investment arrangement as required by auto enrolment regulations and has therefore not prepared any further disclosures in this regard.

2. Investment Arrangements (continued)

2.2 Up until the project commenced to wind up the DC arrangements, the Trustee monitored the DC and AVC fund performance against appropriate benchmarks. Factsheets showing performance details along with other information were also available to members online through the investment managers' websites.

3. Internal controls and core financial transactions

3.1 Under the Regulations, the Trustee would be required to report to you on how it ensures that "core financial transactions" are processed both promptly and accurately. These transactions include transfers in and 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 during the year to 31st March 2020 by:

- Appointing professional third party administrators in respect of the DC arrangements, Capita and Aviva.
- Having in place Service Level Agreements (SLAs) with the administrator to the Career Choices section (Capita), which have been 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.
- 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.
- Appointing a professional firm to undertake an annual audit.

3. Internal controls and core financial transactions (continued)

- 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 delays or errors identified impacting the DC sections of the Plan over the course of the reporting period.

3.3 Prior to commencing the wind up process, the Trustee undertook a number of important measures with their administrator to ensure that core financial transactions, in particular, the transfer of members' savings to successor pension arrangements, could be processed promptly and accurately during wind up. For example, these measures included:

Data completeness checks: identify any missing member data that might delay the processing of benefits during or subsequent to wind up.

Address tracing: Contact trace for any missing or out of date addresses.

4. Value, charges and transaction costs

4.1 During the period covered by this statement, the Plan offered investment funds with charges ranging from 0.25% p.a. to 0.65% p.a. for the funds in which members had invested.

4.2 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.

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.

DC Governance Statement (continued)

4. Value, charges and transaction costs (continued)

*Charges and Transaction Costs as at 31 March 2020**

Fund	Total Expense Ratio % p.a.	Transaction Costs % p.a.
Career Choices Section		
L&G Multi-Asset (was consensus)	0.26	0.04
KWS (Wales) Section		
BlackRock Global Equity 60:40 Index	0.65	0.09
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

* Aviva transaction costs to 31 March 2019; Aviva have been unable to provide updated figures within the timescale required for the Plan accounts.

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

4.3 Working with its professional advisor, Mercer Ltd, the Trustee assessed during the year the extent to which the Plan's charges and transaction costs, represent good value for members. In doing so, it has recognised that the only member-borne deductions are those relating to the costs of investment management, including fund managers' costs and expenses and investment transaction costs. The costs of other services such as Trustee governance and professional advice are not paid by members.

4.4 The Trustee concluded that whilst the Plan offers good value for members for this type of closed arrangement, it would be possible for members to achieve better overall value under a different type of pension arrangement. For example, members cannot currently access benefits flexibly, as envisaged in the pension freedoms that were introduced in 2015.

4.5 As a result of this assessment and other strategic considerations, the decision was taken in 2019 to take steps to wind up the DC arrangements, as noted earlier in this statement. Following a competitive tendering process, Legal & General's WorkSave Buy-Out Plan. The Legal & General WorkSave Buy-Out Plan offers members a broad range of options and tools both before and at retirement, for example:

- Access to a wide range of investment funds, including a number of lifestyle profiles and target date funds.
- Online access for members that provides digital tools and personalised account information.
- A range of member education materials.
- An online financial wellbeing hub which provides practical tools and regularly-refreshed information.
- A range of flexible benefit options at retirement.

Impact of Costs and Charges

4.6 The Plan commenced the wind up process for the DC arrangements during the year. By the Plan year end date of 31st March 2020, members were considering alternative arrangements for their savings having been informed in a communication issued on 6th March 2020 that their savings would be transferred to a new policy with Legal & General if they did not elect an alternative arrangement by 15th May 2020. As at the date of signing this Statement, all members' benefits have been transferred to alternative arrangements or paid directly to members.

Impact of Costs and Charges (continued)

4.7 Trustees are required to publish in their Chair Statement one or more illustrations showing the cumulative impact of costs and charges in future years. These illustrations are aimed at helping members understand the impact of different investment decisions available to them under the Plan. However, the Plan no longer has members or member-related assets within its DC Section. Also, the DC Section of the Plan will not exist in future years. For these reasons, after obtaining and considering legal advice, the Trustee believes that would not serve any member's interest to publish illustrations showing the cumulative impact of costs and charges.

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 arrangements).

5.2 The DC arrangements are discussed at every Trustee meeting, with dedicated time on the agenda. During the Plan year, the focus of these discussions has been on the DC wind up project plan and the key decisions in this regard.

5.3 Our training approach includes:

- At least one dedicated Trustee training day 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, a training day was held on 26 November 2019. Topics covered included:
  - Environmental, Social and Governance considerations and monitoring.
  - Cost transparency.
  - Trustee effectiveness.
  - Strategy and risk management.
- 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 In the context of the DC wind up, the Trustee also considered examination of the laws relating to wind up, including the criteria for winding up, members options on wind up and wind up processes including disclosure of information requirements and their attendant timescales. This necessarily required the Trustee to develop its knowledge and understanding of pensions law.

5.5 Winding up the DC arrangements further involved the Trustee giving detailed consideration to how members' funds would be invested under any default pension arrangement selected by the Trustee, and how its investment arrangements compared with those of the existing DC sections. This resulted in the Trustee developing its knowledge of DC investment strategies and their risk/return features.

5.6 As part of wind up planning, the Trustee also gave consideration to the Plan's deed and rules in order to determine how the DC sections could be wound up and whether any amendments might be needed to effect an orderly wind up.

5. Trustee knowledge and understanding (continued)

5.7 All Trustee Directors have undertaken the Pension Regulator's trustee toolkit and received 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.

5.8 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.

5.9 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.

5.10 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.

5.11 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:

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Chair of Trustee
Kelda Group Pension Plan