

# Pearl Group Staff Pension Scheme

## 30 June 2018

### Chair's Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Regulations") require the Trustee to prepare an annual governance statement to be included in the Scheme's annual report and accounts.

This statement, issued by the Trustee, covers the period from 1 July 2017 to 30 June 2018 and it is signed on behalf of the Trustee by the Chair.

The law sets out what information has to be included in the statement. It has to cover the following matters for the Scheme's Defined Contribution (DC) arrangements:

- The default investment arrangement;
- Processing of core financial transactions;
- Member borne charges and transaction costs;
- The extent to which the Scheme represents good Value for Members; and
- Trustee knowledge and understanding.

#### **The Default Arrangement**

*The Trustee is required to design default arrangements in members' interests and keep them under review. The Trustee will need to take account of the level of costs and the risk profile that are appropriate for the Scheme's membership in light of the overall objective of the default arrangement strategy.*

The Scheme has a Statement of Investment Principles ('SIP') in force which sets out the Trustee's investment objective and the principles followed to ensure the investment strategy in place is appropriate for the needs of the Scheme's membership. Following a strategic review of the default investment strategy during 2015, the default investment strategy was revised. The Trustees decided to transfer the assets of the Scheme to Aon's delegated platform with Aegon (previously BlackRock) to implement the new strategy.

This review included an analysis of the membership to understand members' needs and modelled alternative strategies to help the Trustee select asset allocation strategies to meet those needs. The Trustee has designated the Retirement Pathway to Drawdown as the default arrangement for the Scheme. The default arrangement is provided for members who have not made an active choice with regards to their choice of investment. A copy of the latest Statement of Investment Principles (SIP) is available on request from the Scheme Administrator.

The objective of the default arrangement is to move members from higher return, higher risk investments to lower risk, lower return investments as they near their retirement age in order to protect the value of their fund. This is intended to be appropriate to the majority of members who are expected to take their funds as flexible income in retirement ('income drawdown') at retirement.

It is the Trustee's policy to review the Scheme's investment strategy on a regular basis. The next review of the Scheme's investment strategy is due over 2018/2019.

The Trustee reviews the performance of the funds underlying the default strategy and other investment options on a quarterly basis between each strategic review to ensure the funds are delivering as expected.

#### **Processing of Core Financial Transactions**

- *The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. These transactions include, but are not limited to: investment of contributions to the Scheme;*
- *transfer of member assets into and out of the Scheme;*
- *transfers between different investments within the Scheme;*
- *payments to and in respect of members.*

## Pearl Group Staff Pension Scheme Chair's Statement (continued)

The Company is responsible for ensuring that contributions are paid over to the Scheme promptly, and the timing of such payments is monitored through reports submitted regularly by the Scheme's administrator, First Actuarial.

Core financial transactions are undertaken on behalf of the Trustee by First Actuarial. First Actuarial report quarterly through the administration report provided to the Trustee. The report measures performance of key transactions against service levels to ensure prompt processing in line with those agreed service levels. In addition, details of any complaints or errors are notified to the Trustees as part of the ongoing good governance quality controls within the Scheme.

The Scheme audit also reviews processes and has carried out spot checks on certain calculations carried out during the Scheme year.

First Actuarial have detailed procedures in place for the allocation of contributions. The team also complete a monthly reconciliation of the units held for individuals against those held by the investment manager. Payment of employer contributions is requested by the Accounts Manager who ensures that the payment is received within the agreed timescales (by 31 December). All processes are also controlled under ISO9000 and ISO27001 accreditation's.

In the light of the above, the Trustees consider that the requirements for processing core financial transactions have been met.

### Member Borne Charges and Transaction Costs

*The Trustee is required to assess the costs associated with the Scheme, which are paid by the members. These costs are made up of charges and transaction costs.*

- *Explicit charges, such as the Fund Management Charge (also known as the Annual Management Charge (AMC)), and additional expenses that are disclosed by the Scheme manager as part of the Total Annual Fund Charge (also known as the Total Expense Ratio (TER));*
- *Transaction costs, which include the costs borne within the Scheme for activities, such as buying and selling of particular securities within the Scheme's portfolio.*

The default arrangement has levied a TER of less than the level of the Charge Cap, which is 0.75% p.a., during the period 1 July 2017 to 30 June 2018. The actual TER members paid during this period was between 0.29% p.a. and 0.35% p.a.

The Trustees also makes available a range of self-select options for members. These funds attracted a Total Expense Ratio of between 0.17% p.a. and 0.92% p.a. as at 30 June 2018. A full listing of the TERs is shown in the table below.

Lifecycle strategies	TER* (% p.a.)
Aon Managed Retirement Pathway Funds	0.31 - 0.33
Aon Managed Retirement Pathway to Annuity Funds	0.29 – 0.33
Aon Managed Retirement Pathway to Cash Funds	0.31 – 0.35
Self-select Funds	TER* (% p.a.)
Aon Managed Active Global Equity Fund	0.92
Aon Managed Active UK Equity Fund	0.90
Aon Managed Global Equity Fund	0.25
Aon Managed Liquidity Fund	0.20
Aon Managed Long Term Inflation Linked fund	0.17
Aon Managed Passive Corporate Bond Fund	0.18
Aon Managed Pre-Retirement Bond Fund	0.29
Aon Managed Progressive Growth Phase Fund	0.79
Aon Managed Property and Infrastructure Fund	0.44

## Pearl Group Staff Pension Scheme Chair's Statement (continued)

Transaction costs are those costs incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. These costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018. The Trustee requested details of transaction costs incurred over the period, in respect of the funds in which members were invested. HRSML who manage the funds on behalf of Aon have been requesting this information from fund managers since January 2018 in order to facilitate the provision of transaction cost information.

However, in common with many providers, the Scheme's providers were not yet in a position to report transaction costs. We are therefore unable to provide details of transaction costs for funds in this year's statement. This is not unusual and we expect full transaction cost information to be available for the next Chair's Statement.

The Trustee, in conjunction with their investment advisers, will continue to liaise with the providers to obtain the transaction cost information.

The Trustee notes that net of fees performance figures include the impact of transaction costs. As such, whilst these costs cannot currently be separately identified, the Value for Members' assessment which has been carried out has effectively allowed for transaction costs.

### Illustration of the effect of costs and charges

*The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure").*

We have produced the following illustrations to demonstrate the effect of the above costs and charges for investment strategies representative of the Scheme's membership.

Members are primarily invested in the default strategy i.e. Retirement Pathway to Drawdown which automatically transitions members' funds between the underlying funds as members approach retirement age. The tables and charts below illustrate the effect of the costs and charges at different ages on accumulated retirement pots for two representative members invested in this strategy.

For an active member aged 31, invested in the Retirement Pathway to Drawdown strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £95,000 at age 31 and are shown in current money terms.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
35	140,288	138,693	(1,595)
40	205,599	200,819	(4,780)
45	282,122	272,483	(9,639)
50	368,793	352,389	(16,404)
55	453,674	428,880	(24,794)
60	535,214	500,576	(34,638)

For a deferred member aged 48 invested in the Retirement Pathway to Drawdown strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £27,000 at age 48 and are shown in current money terms.

## Pearl Group Staff Pension Scheme Chair's Statement (continued)

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	28,434	28,256	(178)
55	31,620	30,929	(691)
60	34,309	33,032	(1,277)

The following assumptions have been made for the purposes of the above illustrations:

- The assumed growth rates (gross of costs and charges) for each underlying fund are as follows:
  - Aon Managed Initial Growth Phase Fund 5.75% pa
  - Aon Managed Bond Phase Fund 3.25% pa
  - Aon Managed Progressive Growth Phase Fund 4.50% pa
  - Aon Managed Long Term Inflation Linked Fund 0.75% pa
  - Aon Managed Short Term Inflation Linked Fund 0.75% pa
- Inflation is assumed to be 2.5% each year. Projected pension pot values are therefore shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Retirement is assumed at the normal retirement age of 60.
- Nil member contributions. Company contributions are 10.7% pensionable pay below age 45 and 11.7% above age 45
- Salary increase assumption 2.5% a year
- The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.

### **Value for Members assessment**

*The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by DC section members and the extent to which those charges and costs represent good value for money for members.*

There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Scheme advisors, Aon Hewitt Limited, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges deliver good Value for Members. The assessment is relevant to the current membership. The cost part of the analysis considers the costs and charges members pay. The benefit side of the analysis considers the quality of Scheme Governance and Management, the quality of Scheme Administration, the quality of Scheme Investments and the quality of Scheme Communications.

The Trustee regularly monitors the Scheme administration and over the period found that the necessary administration standards were being achieved. The Scheme also provides members with an appropriate range of lifestyle and self-select fund options. The investment strategy and performance is regularly monitored and reviewed by the Trustee.

The Scheme provides members with clear, regular communications regarding any changes to the Scheme's investments, as well as informative ongoing monitoring, benefit statements and 'at retirement' communications.

Under the Trustee's assessment framework, the Trustee believes that the Scheme delivers value for its members. The Trustee will continue to monitor the Scheme against the Regulator's governance standards to ensure it continues to deliver value.

## Pearl Group Staff Pension Scheme Chair's Statement (continued)

### **Trustees' Knowledge and Understanding**

*Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.*

The Scheme is managed by a Trustee board, and has 6 Trustee Directors. There are 3 Trustee Directors appointed by the Principal Employer (including an Independent Trustee Chairman), and 3 member nominated Trustee Directors. The Trustee board incorporates a range of skills and experience and a diverse mix of backgrounds.

The Trustee Directors have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments. Trustee Directors are encouraged to supplement their knowledge using the Pensions Regulator's Trustee Toolkit within 6 months of appointment, or otherwise have alternative skills. All Trustee Directors are strongly encouraged to complete the Regulator's 'TKU e-learning modules for Hybrid Schemes'. Agenda-specific training is provided by the Scheme's advisers during Board meetings, as necessary.

Training logs are maintained for all Trustee Directors by the Scheme Secretary, First Actuarial. Copies of scheme documents are provided as part of the new Trustee training and are reviewed by the Trustee on a regular basis.

During the Scheme year, the Trustee Directors received the following training:

- various training topics including diverse trustee boards and integrated risk management (demonstrating the Regulator's requirement to understand the principles relating to risk and scheme management),
- training on General Data Protection Regulation as a precursor to the review and discussions in early 2018 on updating the data protection checks, policies and privacy notice (demonstrating the Regulator's requirement to have a working knowledge of the documents setting out the Trustee's current policies and to have knowledge and understanding of the law relating to pensions and trusts),
- Strategic review day covering investment, long term strategy and employer covenant, and
- attending forums and events including the 2018 Pension and Savings conference.

In addition to the skills within the Trustee board, the Trustee works closely with their appointed professional advisers throughout the year to ensure that they run the Scheme and exercise their functions properly. Their professional advisers also attend all Trustee meetings.

During the year, the Trustee held seven trustee board meetings with advisers who have provided specialist advice and updates on legislation, guidance and best practice developments.

Taking into consideration the training activities completed by the Trustee board together with the professional advice available to the Trustees, the Trustee considers that it meets the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) and is confident that the combined knowledge and understanding of the Trustee board, together with the input from its specialist advisers, enables it to properly exercise its functions as the Trustee of the Scheme.