

Great lakes (UK) Limited Pension Plan

Chairman's Report – Defined Contribution Annual Governance Statement

For the year ended 31 December 2018

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1. INTRODUCTION

- 1.1 This statement describes how the Trustees have governed the Money Purchase Section of the Plan during the year.
- 1.2 The Occupational Pension Schemes (Scheme Administration) Regulations 1996 require the Trustees to include an annual statement regarding governance in the annual report. This statement covers the period from 31 December 2017 to 31 December 2018.
- 1.3 The statement covers four principal areas:
1. Investment, with particular focus on the Plan's default investment arrangements.
 2. Internal controls, with particular focus on the processing of core financial transactions.
 3. Value, with particular focus on charges and transaction costs deducted from members' funds.
 4. The knowledge and resources available to the Trustees, including how the Trustees maintained the statutory levels of knowledge and understanding to govern the Plan and how these help the Trustees to ensure that the Plan is governed effectively.

2. Investment Arrangements

- 2.1 A copy of the Plan's latest Statement of Investment Principles (SIP), prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is attached. This covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk and diversification. It also states why we believe the default investment arrangement to be designed in members' best interests.
- 2.2 Although the Plan is now closed to new members, investments have historically been placed into a default investment option. Existing savings in the Plan continue to be invested in this default investment option. The SIP includes detailed information on the default investment arrangement. However, in summary, the default option is a 'lifestyle' arrangement that has been designed to be broadly appropriate for members who intend to take 25% of their funds as cash at retirement and to purchase an annuity with the balance.
- 2.3 The default investment option's growth phase invests in UK and overseas equities. These investments are expected to provide long term (above inflation) growth with some protection against inflation erosion, albeit with volatility. As a member's invested fund grows and their target retirement date approaches, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the ten-year period prior to a member's retirement date. Investments are switched into cash (for capital preservation purposes) and index-linked UK Government bonds (to provide a broadly appropriate match for annuity price movements).
- 2.4 Over the course of 2018, the Trustees have been working with our advisers and the Company to consider future options for the Money Purchase Section of the Plan, in light of its closed status. This included a review of the investment arrangements and in particular consideration of the membership profile of the Money Purchase Section, trends in how individuals with Money Purchase savings take their retirement benefits, and alternative options available to the Trustees relative to the current investment and Plan design.
- 2.5 As a consequence of this review, the Trustees are pleased to confirm that we intend to make some changes to the investment arrangements later this year. In brief, these changes involve diversifying the asset allocation of the default investment strategy, and the introduction of new investment choices for members. The Trustees look forward to communicating further details in the coming months.
- 2.6 Performance and risk-based reviews were also undertaken on a six-monthly basis, the last being considered using information as at 30 September 2018.

3. Internal Controls and Core Financial Transactions

- 3.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:
- Appointing a professional third party administrator, with Service Level Agreements (SLAs) in place which cover all core administration processes. These SLAs are monitored on a quarterly basis and cover both the accuracy and timeliness of core financial transaction processing. Administration reports are reviewed at every Trustee meeting.
 - If administration service levels fall below 100%, the Trustees discuss the reasons for this outcome with the administrator at Trustee meetings, and ensure that plans are in place to improve service levels.

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- If any delays are experienced by members on administration queries, the administrator reports each quarter to the Trustees on the reasons why, categorising each such instance for example by “awaiting documents from third party” or “delay due to calculations required for complex benefits”, among other reasons. This reporting, and discussions at Trustee meetings, gives the Trustees insight into member activity, completion timescales for administrative functions and the reliability of the administration controls.
- The Trustees receive the administrator’s assurance report on internal controls. During the year, the report received was for the period 1 January 2018 to 31 December 2018 and noted the Independent Service Auditor’s opinion that controls were designed, implemented and operated effectively throughout the period.
- Maintaining close working links between the in-house Human Resource and Pension teams, along with the administrator.
- Implementing a data cleansing action plan with the administrator, which is monitored by the Trustees.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Ensuring that all third party providers share details of their data security and cyber risk policies with the Trustees. These policies are reviewed and the parties are questioned on any areas requiring further clarity.
- Maintaining and monitoring a risk register which includes risks in relation to core financial transactions, along with details of mitigation strategies adopted by the Trustees.
- Appointing a professional firm to undertake an annual audit.

3.2 I am pleased that in the last Plan year there have been no material administration service issues which need to be reported here by the Trustees. We are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

4. Value, Charges and Transaction Costs

4.1 The range of the levels of charges and transaction costs applicable to the default arrangements during the period are detailed in this section.

Charges

4.2 All of the funds available to Plan members have total expense ratios that fall below the charge cap of 0.75% p.a. Note that a “total expense ratio” reflects the total costs associated with managing and operating an investment fund, including investment management fees, fund legal fees, investment platform fees and any other expenses.

4.3 The table shows the total expense ratios on the funds used in the default investment arrangement as at 31 December 2018:

	Total Expense Ratio % p.a.
Fund	
(50:50) Global Equity Index	0.16
Over 5 Yrs Index-Linked Index	0.11
Cash	0.13

Source: BlackRock. The “total expense ratio” reflects the total costs associated with managing and operating an investment fund, including management fees, legal and legal fees, fund management auditor fees and any other expenses within the fund.

4.4 The charges applicable to the Plan's other investment funds as at 31 December 2018 are:

BlackRock Aquila Life Fund	Total Expense Ratio % p.a.
All Stocks UK Gilt Index	0.11

Source: BlackRock. The “total expense ratio” reflects the total costs associated with managing and operating an investment fund, including management fees, legal and legal fees, fund management auditor fees and any other expenses within the fund.

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Transaction Costs

- 4.5 When buying and selling investments, transaction costs can be incurred.
- 4.6 Transaction 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 by a fund). The Financial Conduct Authority has provided guidance (PS17/20) 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 in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.
- 4.7 In the table below, we set out the transaction costs incurred in the default investment arrangement and other investment funds over the 12-months to 31 December 2018. Note that due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

BlackRock Aquila Life Fund	Transaction Costs %
(50:50) Global Equity Index	0.01
Over 5 Yrs Index-Linked Index	0.00
Cash	0.02
All Stocks UK Gilt Index	-0.03

Source: BlackRock.

Impact of Costs and Charges

- 4.8 Using the charges and transaction cost data provided by BlackRock and in accordance with regulation 23(1)(ca) of the Administration Regulations, the Trustees have prepared illustrations detailing the impact of costs and charges typically paid by a Plan member on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.
- 4.9 The illustrations have taken into account the following elements:
- Typical Plan savings pot size
 - Contribution levels (assumed to be nil, given the Plan's closed status)
 - Real terms investment returns gross of costs and charges
 - Adjustment for the effect of costs and charges
 - Time period of investment.

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4.10 To make this analysis representative of the membership, the Trustees have based this on the median member age of 48 and normal retirement age of 65, using a starting pot size of £43,000, which is reflective of the average for the members at that age, based on data sourced from the administrator.

Year after age 48	Default Lifestyle Arrangement		Highest Assumed Growth (and highest cost) Fund - BlackRock 50:50 Global Equity		Lowest Assumed Growth Fund - BlackRock Cash	
	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
1	44,293	44,219	44,293	44,219	42,578	42,515
2	45,625	45,473	45,625	45,473	42,159	42,035
3	46,997	46,762	46,997	46,672	41,745	41,561
4	48,410	48,087	48,410	48,087	41,335	41,092
5	49,865	49,451	49,865	49,451	40,929	40,628
6	51,365	50,853	51,365	50,853	40,527	40,169
7	52,909	52,294	52,909	52,294	40,129	39,716
8	54,288	53,571	54,500	53,777	39,735	39,268
9	55,486	54,667	56,139	55,301	39,345	38,825
10	56,487	55,570	57,827	56,869	38,958	38,386
11	57,280	56,269	59,566	58,481	38,576	37,953
12	57,855	56,755	61,357	60,139	38,197	37,525
13	58,204	57,021	63,202	61,844	37,822	37,101
14	58,323	57,063	65,102	63,598	37,450	36,683
15	58,209	56,878	67,060	65,401	37,082	36,269
16	57,862	56,470	69,076	67,255	36,718	35,859
17	57,286	55,481	71,153	69,161	36,357	35,455

Notes:

- I Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- II No contributions are assumed to be paid, consistent with the Plan's closed status.
- III Values are estimates and are not guaranteed.
- IV Projected growth rates use the same underlying assumptions as the Statutory Money Purchase Illustration assumptions plus any transaction costs.

Value for Members

4.11 The Trustees have assessed the extent to which the charges and transaction costs set out above represent good value for members and have concluded that, for the fund options that are available to members, the Plan offers good value for money relative to peers (using investment manager median fee levels) and alternative arrangements that are available.

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 Trustees as a body in dealing with the whole Plan (not just the DC Section).
- 5.2 The Trustees have put in place arrangements for ensuring each Trustee takes personal responsibility for keeping up to date with relevant developments and each quarter consider training requirements. Training logs are maintained for each Trustee and training for the full Trustee board is provided regularly during quarterly meetings. Training plans are bespoke, and tailored to issues that arise on the Trustees' business plan.
- 5.3 During the course of the year, training topics considered by the Trustees included the new cost and charge disclosures, the General Data Protection Regulation (GDPR) requirements, and environmental, social and governance (ESG) risks and opportunities.
- 5.4 The Trustees have adopted a robust training programme for newly appointed Trustees. For the Plan, upon appointment, a Trustee is required to undertake an induction process. This includes training with relevant advisers, as well as completion of the Pensions Regulator's online toolkit.


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- 5.5 The Trustees are conversant with, and have demonstrated a working knowledge of, the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Trust Deed and Rules, advice is sought from the Plan's legal advisers.
- 5.6 The Trustees are conversant with, and have a working knowledge of, the Statement of Investment Principles, including requirements that will apply from October 2019 in relation to our policies in respect of financially material considerations including environmental, social and governance risks & climate change.
- 5.7 In addition, the Trustees receive advice from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers.
- 5.8 The Pension Regulator's Trustee Toolkit has been completed by four of the Trustees in office with the remaining Trustee working to complete this over 2019.
- 5.9 An independent professional Trustee has been appointed as Chair, who has a wide range of experience and skills to compliment the knowledge and understanding of the Employer and Member-nominated Trustees.
- 5.10 Appointed advisers circulate briefings and industry updates to the Trustees and are tabled at each meeting for discussion.
- 5.11 The Trustees met the requirements of sections 247 and 248 of the 2004 Pensions Act (requirements for knowledge and understanding) during the Plan Year, enabling them to properly exercise their functions as Trustees of the Plan.

6. Trustee Statement of DC Governance

- 6.1 The Trustees undertake ongoing assessments of the Plan against the DC Code of Practice and related guidance, and has implemented a structured plan for governance in this respect.
- 6.2 The Trustees consider that our systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's Code of Practice.

Signed for and on behalf of the Trustees of the Great Lakes (UK) Limited Pension Plan by:

 19/9/2019

Chair of Trustees