Retirement Solutions

TPT Retirement Solutions

Chair's Annual DC Governance Statement 2018

DC Governance Standards 1 October 2017 - 30 September 2018

Annual Governance Statement for the Scheme Year ended 30 September 2018 prepared in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

Executive Summary

Contents

The Trustee is required to prepare an annual statement which covers:

- Default investment strategy
- Administration (processing core financial transactions)
- Costs & charges
- Value for members
- Trustee knowledge & understanding
- Trustee independence
- Member feedback

Our detailed response to each of these areas is set out below.

Background

The Pensions Trust is the registered name of the occupational pension scheme governed by a trust deed and rules effective from 1 November 2014, as amended (the “Scheme”). The Scheme is a “master trust”, meaning it is a large pension scheme which can be used by lots of different employers. The Trustee of the Scheme is a company called Verity Trustees Limited. The statutory directors of Verity Trustees Limited are known as Trustee Directors. As at 30 September 2018 there were 208,668 members of the Scheme.

A number of parties support the Trustee with its functions, many of which are referred to in this statement. Such as the:

- Investment Committee (**IC**): responsible for ensuring the effective investment of funds on behalf of members and employers of the Scheme.
- Investment Management Team (**IMT**): responsible for developing and maintaining TPT’s investments strategy, and is the main point of contact for investment managers and consultants.
- Investment Managers (**IM**): responsible for managing investments on behalf of the Trustee.
- Management Board (**MB**): responsible for overseeing the operation of TPT and ensuring that the Trustee’s delegates exercise the powers delegated to them appropriately.
- Senior Management Team (**SMT**): the executives responsible for the day-to-day running of TPT.
- Audit, Risk & Compliance Committee (**ARCC**): responsible for, amongst other things, overseeing the manner in which the TPT management ensure and monitor the adequacy and oversight of internal controls and risk management strategy.

The Trustee must operate in accordance with the rules of the Scheme and within their terms of reference (which are included in the Governance Document).

Default investment arrangement

The Trustee invests contributions into a default investment arrangement unless members self-select an alternative investment offered by the Trustee.

In the Scheme, members are provided with a default investment arrangement from a range of Target Date Funds (**TDFs**). The specific TDF is based on members’ assumed normal retirement date (age 65), although members can set their own target retirement date. Similarly, a series of Ethical Target Date Funds (**ETDFs**) are available as the default option for members of The Ethical Fund (**TEF**). In the Scheme year over 96% of the Scheme’s DC members were invested in a default investment arrangement.

Each TDF is designed and managed for the member saving to retire in or around the years stated in its name (the "**target date**"). The aim is to maximise, for a typical member, his or her eventual retirement income/savings while taking account of his or her decreasing capacity to afford losses as they approach and, possibly, pass the target date of retirement.

Each TDF will progressively move from riskier, capital growth–oriented assets, such as equities and property, into lower-risk, retirement income protection–oriented assets, such as bonds, as it approaches and passes its target date.

Statement of investment principles (SIP)

A copy of the latest SIP is attached to this statement as **Appendix 1**.

The SIP sets out the principles governing how decisions about investments must be made. It sets out the Trustee's policy on such things as choosing investments, risk and return and the extent, if at all, we take account of social, environmental or ethical considerations when taking investment decisions.

At the start of the Scheme year, the aims and objectives of the default investment arrangement were (in very broad terms) to help ensure that the funds deliver the best possible outcome for the majority of members at retirement.

In particular:

- Our aim is for each TDF to grow more in the earlier years and move towards less risky asset allocations as the target retirement date (default or as selected by the member) approaches. Over the life of the TDF, the manager has the objective of out-performing the inflation rate so the investment grows in real terms.

- The Trustee designs the strategy of each TDF so that it is suitable for a member's own target retirement date. The Trustee believes that it is in the best interests of the members to provide a default strategy made up of funds which reflect the amount of time left before the member's target retirement date. The Trustee further considers that the default strategy should not require the member to make investment choices or switch funds as they approach retirement.

- The investments held in the default investment arrangement are varied over the life of each TDF so that they meet the specific performance and risk objectives of the TDF. The funds have a range of underlying securities under a long term insurance contract and include a balance of:

  – growth seeking investments including a range of equity funds;

  – balanced investments and diversifiers including global properties; and

  – cautious investments including cash, corporate bonds and UK government bonds.

- The Trustee is committed to responsible investment, and believes that environmental, social and governance factors can impact financial performance. These are set out in TPT's **Responsible Investment Policy**.

- The Trustee is a signatory to the Principles for Responsible Investment and the UK Stewardship Code. It also supports other industry wide initiatives to promote responsible investment, such as the Institutional Investors Group on Climate Change (IIGCC).

- The Trustee's Climate Change Policy is a strategic part of its approach to being a responsible investor. The policy drives an understanding of exposure to climate change risks and opportunities at the portfolio level for DC investments, and it helps to ensure that new and existing investments are managed in a way that takes account of these risks.

- We make ethical options (ETDFs) available in all of our DC arrangements. ETDFs invest in equity funds, which track the FTSE4Good and MSCI (Socially Responsible Investment (SRI) Indices, plus they have an allocation to corporate bonds (which are ethically screened) and UK government bonds. The IC keeps the investment strategy of the ETDFs under regular review and seeks to provide further diversification within these funds as alternative strategies become available at appropriate costs.

Review of the default strategy and performance of the default arrangement

The Trustee needs to review the SIP regularly - at least every three years and whenever there has been a significant change in investment policy.

The Trustee has delegated review of the SIP (and default investment strategies) to the IC and receives a report on these activities on an annual basis.

Changes to the SIP were agreed at the IC meeting held in September 2018, and signed-off by the Trustee in November 2018. These were:

- the addition of ESG & Climate Change to the risk register;

- an update to the responsible investment, climate change, voting and engagement section; and

- no change to the CPI+ targets for the target date funds, noting the recommendation from Redington (the Trustee's investment consultant) to monitor separate slices of each fund against different objectives.

The Trustee also undertakes an annual review of:

- the aim and objectives of the default strategies and policies;

- the performance of the default investment arrangements (and the self-select funds); and

- the extent to which strategy and returns are consistent with the aims and objectives.

The review processes involve various layers of delegated roles and responsibilities (of which more below). The culmination of the review process took place at an IC meeting on 1st May 2018.

The IMT monitors performance on an ongoing basis and reports to the IC which formally monitors the performance of the default investment arrangements (and the self-select funds) each quarter in the Scheme year, and reviews them annually in conjunction with the managers of the funds. A paper is produced by the IMT that captures any material updates related to both the default arrangements and self-select funds. A DC paper is produced for each of the quarterly IC meetings, but the formal papers for the Investment Strategy Review are prepared for the 1st May and 17th May IC meetings.

In February 2018, TPT appointed Redington to undertake a review of the DC offering. The review covered:

- the extent to which the TDF offering needs to change and develop as TPT's DC assets grow towards £2bn;
- whether TPT's current offering is able to meet its members' retirement aspirations; and
- how the DC investment strategy may potentially look in the future.

In summary Redington found that:

- the TDF structure is an appropriate delivery mechanism for TPT's DC Section and no major changes to the offering are required;
- the investment manager is managing the investment strategy appropriately;
- members are receiving value for money from the strategy; and
- the strategy compares well against its peers.

The recommendations from Redington were delivered in a report to the IC in September 2018 at which meeting the IC agreed to implement the following proposals:

Recommendation one: The IC recommended to the Trustee Board that it adopts four separate targets to reflect expectations at different stages of the glide path. These targets were agreed by the Trustee in October 2018.

Recommendation two: The IC agreed to the investment manager's proposal to update the risk budget within the investment strategy to reflect an absolute risk measure, removing the income objective at retirement. This has now been fully implemented.

Recommendation three: The IC agreed to incorporate environmental, social and governance (ESG) criteria within the multi-factor funds and to make an allocation to a low-carbon index.

Recommendation four: The IC agreed to isolate transaction costs and improve metrics in the DC dashboard.

The IC continues to monitor the implementation of these four recommendations.

Administration (processing core financial transactions)

Good member outcomes in DC schemes rely, at least in part, on quality administration. As part of this, the Trustee is required to have processes in place to make sure that the key aspects of administration are processed promptly and accurately.

Core financial transactions

Key elements of administration are known as "core financial transactions" and include (but are not limited to):

- investment of contributions;
- transfer of members' assets to and from the scheme;
- switching between investments within the scheme; and
- payments out of the scheme to members/beneficiaries.

Service level agreement (SLA)

The administration of the DC scheme is outsourced to JLT, a specialist third-party provider of pensions administration services. The Trustee requires the administrator to meet high standards through a SLA which sets out the range of services to be delivered and expectations around such things as timescales and accuracy.

The Trustee receives reports at each meeting through its MB to help them monitor performance in line with the SLA.

In summary, our SLA with the administrator covers:

- The processing and creation of new member records, including the setup of the default target dated fund for investments, within 5 working days from receipt of information.
- The processing of monthly contributions and fund switches with the investment manager within 24 hours of request.
- The answering of 85% of all member calls within 20 seconds.
- The issuing of all member correspondence, including, but not limited to, general enquiries, transfer requests and retirement requests, within 5 working days from receipt of request.
- The production of annual benefit and SMPI statements within 3 months from the end of the Scheme year.
- The ongoing management of all member personal and financial data.

- The ongoing management of member online access.
- The processing of leaver information within 5 working days from receipt of information.
- Daily and monthly bank, unit and fund reconciliations.
- Monthly stewardship reporting and balanced scorecards.

In the Scheme year, the Trustee used a mix of processes to monitor compliance with the SLA. In particular, the Trustee received regular reports to help monitor that the SLA was being met and guard against issues arising. In addition, the processes adopted by the administrator to help meet the SLA included daily monitoring of bank accounts, a dedicated contribution processing team, and two individuals checking all investment and banking transactions. Further processes include:

- JLT provided its own annual assurance report (AAF 01/06) on 4th July 2018, in order to confirm that standards are met. This was complimented by the provision of a bridging letter from JLT confirming that the key processes and standards that JLT operate are directly applicable to TPT.
- TPT carried out its own audit of JLT's processes on 5th and 6th September 2018, in addition to reviewing JLT's assurance report;
- TPT's in-house Internal Audit function provided assurance to the Trustee, ARCC and the SMT over the management of outsourced services;
- Core financial transactions were considered as part of the audit for Master Trust Assurance purposes and tested by Crowe (independent auditors) between the 17th and 19th of September 2018; and
- Ongoing review and consideration by the ARCC at each quarterly ARCC meeting to provide oversight, challenge and support.

In order to specifically assure the Trustee that core financial transactions were processed promptly and accurately, and that standards of administration undertaken by JLT were maintained, the following processes were undertaken in the Scheme year:

- Monitoring of JLT administration services against SLAs and the extent to which member transactions have been processed on time.
- Considering and discussing the report produced by JLT at monthly meetings with JLT and outlining any anomalies and the actions taken.
- Reviewing capacity at JLT and the level of resources available.
- Annual reporting by JLT to the SMT on the completeness and accuracy of common and conditional data.
- Annual audits by TPT's DC Contract Manager of the core financial transactions undertaken by JLT, including member investment allocations and other aspects of the DC investment cycle. Any issues raised by the annual audit will be discussed as part of the monthly meetings between TPT and JLT and escalated to the MB as necessary.

- Annual review of the AAF 01/06 Pensions Administration assurance report prepared by JLT, which is scrutinised as part of TPT's own DC governance process.

- All monthly contributions and member data are collected by a dedicated employer support team within TPT. The process includes verification by the employer that the contribution schedules submitted are correct, and verification by TPT that the contributions received meet the contribution schedules. Where standards are not being met, issues are escalated to the Administration Director and the SMT for rectification and then reported to the MB via the Administration report. If necessary the ARCC may also be notified of an issue.

Due to the complexity of pensions administration, issues do arise from time to time. In the Scheme year, it was noted that JLT had failed to issue leaver packs to a small tranche of members within the required statutory timeframe. This was reported by us to the Pensions Regulator. The issue was promptly resolved and additional controls have been put in place to minimise the likelihood of it arising again. There are no unresolved issues in relation to core financial transactions.

Ultimately, based on the monitoring processes described above and the output from those processes, the Trustee believes that core financial transactions were processed promptly and accurately during the Scheme year.

Member borne costs & charges

Administration charges

In all DC pension schemes, members pay charges for a range of services associated with scheme governance and management, investment, administration and communications. Charges are deducted as a percentage of member pots known as the annual management charge (AMC). This AMC has been designed so that it incorporates any fixed costs including platform charges.

Default investment arrangements

In the default investment arrangements, administration charges are as follows:

- TDFs: The AMC is 0.5% a year of the annual fund value and all funds are priced daily.

- ETDFs: The AMC is 0.7% a year of the annual fund value and all funds are priced daily.

The higher charge for ETDFs reflects the additional screening required to ensure they meet the ethical standards required. Members who joined the TEF before 1999 pay a lower AMC of 0.5% a year because they paid a fixed price on joining the fund (as required by the scheme rules at this time).

Self-select investment arrangements

The IC undertakes checks to help ensure that the charges of self-select funds are accurate and appropriate. The following AMCs apply:

Self-select Fund	AMC (pa)
Bond Fund	0.45%
Cash Fund	0.45%
Global Equity Fund	0.45%
Index-Linked Gilts Fund	0.45%
Socially Responsible Investment Fund	0.45%
Diversified Growth Fund	0.97%
Property Fund	1.00%

The higher charges associated with the Diversified Growth Fund and the Property Fund reflect the higher costs associated with actively managed funds. Other funds have a lower AMC than the default fund because platform charges do not apply for these investments.

In the interests of clarity and transparency the quoted AMC includes all fixed member charges, including the platform fee. Any additional costs are excluded (these are described below).

Additional charges

On some funds, additional fund expenses are also payable over and above the AMC. The additional charges are payable on the TDFs, the ETDFs and the cash self-select fund. These typically include custodian fees, legal fees and depository expenses. The expenses vary between each fund and from month to month. All of our member communications state when and where additional fund expenses may be payable, and state the maximum level of expenses that TPT would expect to incur over the course of a year.

Fund fact sheets detail the actual fund expenses charged over the previous quarter.

TPT has set an upper expectation on the costs that the investment managers can deduct from these funds as follows:

- TDF = 0.03%
- ETDF = 0.05%
- ETDF (pre-99) = 0.075%
- TPT Cash Fund = 0.01%

These charges are taken from members funds in addition to the AMC.

Transaction costs

In all DC pension schemes, a further layer of costs are incurred when contributions are invested. This is because investments involve transactions such as buying, selling, lending and borrowing of investments - and all of these transactions incur costs. Transaction costs are payable by members in addition to the AMC and the additional fund expenses described above.

Default investment arrangements

The following tables show the estimated costs for the target date fund cohorts. This is based on the estimated cost of regular contributions and rebalancing events and the spread of the underlying portfolios, rolled up into the TDF. Please note that the figures and costs shown represent the worst-case level of costs (ie a full mid-offer spread) and the actual spreads experienced are typically lower.

Example

Annual salary	£18,000
Total contribution (incl. member and employer)	8%
Total investable contribution (per year)	£1,440
Average pot size	£1,500
Typical rebalance size (proportion of assets	5%
Rebalance events (per year)	11

	Regular. Conts Into TDF		Rebalance of assets			
	Mid - Offer	**Cost**	**%***	**Cost**	**Total cost**	**As % of pot size**
Pre-retirement	0.096%	£1.38	0.164%	£1.36	£2.74	0.183%
Mid-life	0.134%	£1.93	0.238%	£1.97	£3.89	0.260%
Young	0.127%	£1.83	0.228%	£1.88	£3.71	0.248%

* based on a normal rebalance of a portion of the underlying holdings.

These costs are estimates only and will be subject to change when all the underlying reporting is complete. Fees do not account for dilution adjustment pricing for the AB Global Factor Fund and Vanguard Global Small Cap Index Fund.

It is convention for prices to be published (mid) and then the investor gets either the bid price or the offer price as per the executed contract note.

	Average Full Bid - Offer Spread	Average Bid - Mid Spread	Average Mid-Offer Spread
Pre-retirement	0.164%	0.068%	0.096%
Mid-life	0.238%	0.105%	0.134%
Young	0.228%	0.101%	0.127%

Vintage	Full Bid - Offer Spread	Bid-Mid Spread	Mid-Offer Spread	Actual spreads experienced
AB Retirement Fund 2008-2010	0.141%	0.058%	0.082%	0.075%
AB Retirement Fund 2011-2013	0.144%	0.060%	0.084%	0.094%
AB Retirement Fund 2014-2016	0.146%	0.061%	0.086%	0.094%
AB Retirement Fund 2017-2019	0.157%	0.065%	0.092%	0.093%
AB Retirement Fund 2020-2022	0.186%	0.077%	0.109%	0.094%
AB Retirement Fund 2023-2025	0.213%	0.088%	0.124%	0.095%
AB Retirement Fund 2026-2028	0.234%	0.098%	0.137%	0.097%
AB Retirement Fund 2029-2031	0.242%	0.104%	0.138%	0.102%
AB Retirement Fund 2032-2034	0.245%	0.108%	0.137%	0.107%
AB Retirement Fund 2035-2037	0.238%	0.107%	0.131%	0.108%
AB Retirement Fund 2038-2040	0.232%	0.106%	0.127%	0.107%
AB Retirement Fund 2041-2043	0.228%	0.105%	0.123%	0.097%
AB Retirement Fund 2044-2046	0.228%	0.106%	0.123%	0.086%
AB Retirement Fund 2047-2049	0.228%	0.106%	0.123%	0.072%
AB Retirement Fund 2050-2052	0.228%	0.106%	0.122%	0.068%
AB Retirement Fund 2053-2055	0.228%	0.107%	0.121%	0.067%
AB Retirement Fund 2056-2058	0.228%	0.107%	0.121%	0.066%
AB Retirement Fund 2059-2061	0.228%	0.094%	0.134%	0.094%
AB Retirement Fund 2062-2064	0.228%	0.094%	0.133%	0.075%
AB Retirement Fund 2065-2067	0.228%	0.095%	0.133%	0.075%
AB Retirement Fund 2068-2070	0.228%	0.095%	0.134%	0.075%
AB Retirement Fund 2071-2073	0.228%	0.095%	0.134%	0.075%

Self-select investment arrangements

In the self-select investment arrangements, the full range of transaction costs remains unclear. Some information is already available but not in a form which readily facilitates inclusion in the cumulative illustrations below.

Further information

Transaction costs are supposed to be disclosed by the investment managers who invest money for the Trustee. This requirement has been in force since 3 January 2018. Transaction costs should be calculated via the so-called "Slippage methodology" which measures the market value prior to a trade, and the value of the assets once the trade has been made.

However, identification, calculation and disclosure of transaction costs is complex and reporting arrangements across industry are still in their infancy. Like many other schemes, in the Scheme year, we were unable to obtain all of the information we wanted in relation to transaction costs.

In particular we were unable to provide full information in relation to the self-select investment arrangements – especially "implicit" transaction costs which are not directly observable and are therefore more difficult for managers to identify and disclose.

It was also not possible to get hold of transaction costs information calculated on the "Slippage methodology". In this respect, we are comforted by advice to the effect that the calculations which were used could be more meaningful in practice than the "Slippage methodology". For the vast majority of DC savers, the biggest "transaction charge" will occur when they trade in or out of a fund. This is due to the underlying funds having a bid-offer spread i.e. the difference between what a fund can be sold and what it can be bought for. These spreads directly impact the price the member pays and could in practice have a bigger impact than the "Slippage methodology". The calculations used for the transactions information we have been able to obtain, using the "Bid/Offer measure" take account of these spreads.

Equally, there are a number of industry-wide measures in relation to disclosure which are further holding back disclosure on the "Slippage methodology". In the meantime, by using the "Bid/Offer measure", we are able to identify the cost spread between an investment and a disinvestment. Certain assumptions have been made for the underlying funds in the portfolio where there is a dilution levy, but in the round we believe this is a reasonable attempt at identifying the cost to transact.

To obtain the remaining transaction costs information going forwards we put in place the following steps and procedures which are now already underway:

- The IMT is working with its investment manager and platform provider to obtain more information on transaction costs which can be presented to members in a straightforward way. A formal request for transaction costs data was made on 4 December 2018.

- TPT have been discussing Phoenix's preparation for delivery of transaction costs data at regular meetings, specifically on 7th November 2018 at a due diligence meeting, 4th December 2018 at a meeting at TPT's offices and a formal request via email for the transaction cost information on 7th December 2018. These were followed up with emails, a conference call on 10th December 2018 and 3rd January 2019 and an in person meeting at TPT's offices on 10th January 2019.
- By 7th January 2019 TPT had received information from Phoenix with transaction costs information from the underlying fund managers with data requested for the 12 months to 30th September 2018, although not all underlying managers are able to provide the information as at this date. TPT is now waiting for Phoenix to add the implicit costs for the self-select funds and to calculate the blended costs for the target date funds (default funds).
- On 10th January 2019, TPT met with Phoenix to help understand the methodology for calculating aggregated costs.
- TPT have the raw information from the underlying fund managers but the data does not directly reflect the costs or charges of the Phoenix CIS Funds and has not been aggregated at the fund of fund level. Disclosing this data could be misleading for individuals looking to understand costs and charges.
- TPT has not been able to obtain the costs and charges of the Phoenix CIS Funds including the blended costs for TDFs. The information remains outstanding as at the date of this document. We are in regular meetings with Phoenix to progress the project.

Cumulative Illustration

The Trustee is required to present the costs and charges typically paid by a member as a "pounds and pence figure". The DWP has prepared a sample table for this purpose which is set out below, duly adapted and populated in accordance with the DWP guidance using Scheme specific information. We have deviated from the DWP guidance by providing, in addition, the first column in the tables below because we consider this to helpfully show the projected accumulation of contributions alone.

The information in these tables is only intended to be illustrative and members should exercise caution before relying on this information for the purposes of making decisions about savings, investment and retirement choices. In particular, the values shown are estimates based on a number of assumptions and are not guaranteed. Members should refer to the Scheme booklet for more context about the characteristics (as opposed only to cost) of investment options and take independent financial advice as appropriate when making decisions.

Default arrangement illustrations

See **appendix 2**.

Self-select arrangement illustrations

See **appendix 3**.

Life Cover

Some employers choose to provide life cover to employees via one of the TPT schemes. The costs associated with the provision of life cover vary from scheme to scheme. Members who require details of the costs associated with the provision of life cover should contact TPT for full details. Depending on the rules of the relevant scheme and the arrangements agreed with the individual employer, the cost of providing this life cover may either be met by a deduction from employer contributions before investment, or by a separate charge on the employer.

The Trustee has recently initiated a project to review life cover to ensure that charges are consistent across each of the TPT schemes and offer good value to Scheme members and employers.

Value for members

The Trustee believes that, in the Scheme year, the charges and transaction costs incurred by their members represent good value for members.

Report

The Trustee carried out a value for money assessment in November 2018, and a formal report was approved by the Trustee on 22 January 2019.

The purpose of this report was to assess the value for members of the DC arrangements within TPT in relation to the costs they pay in return for the benefits and services they receive. In addition, data and information has been collated from mostly publicly available sources on TPT's main 'comparator' master trusts.

The report can be accessed **here**.

Charges & Transaction Costs

The Trustee believes that the charges members pay for these services are very reasonable compared with its 'comparators'.

The vast majority of TPT members (who use the default TDFs) pay a member charge of 0.50%. This compares favourably with those comparators that have a 'standard' charge (including those that have 'combination' charges, with an AMC and some form of contribution or flat rate charge). It's not possible to make a comparison against those schemes that price each employer individually.

Considerations

The table below sets out an explanation of how we have assessed value (ie our criteria) and exactly why we form this belief based on the following areas considered in the formal report.

Criteria	Notes / Conclusions
Scheme Governance & Management	The Trustee believes that TPT provides: • a good range of services both directly to members, and in the day to day running and governance of the Scheme; and • a robust and independent governance structure in place which focuses on improving member outcomes. Evidence to support this conclusion includes: **External assessment** TPT successfully retained its PQM Ready Quality Mark in 2017 and Master Trust Assurance Framework Accreditation in 2018. This means that the DC Scheme has been independently assessed as having high quality standards of governance, low charges and clear member communications and continued to be included in the Pensions Regulator's approved list of Master Trusts. The Trustee is confident that its application for Master Trust Authorisation from the Pensions Regulator will be successful – further demonstrating the quality of governance (amongst other things). **Trustee assessment** The Trustee undertakes an annual appraisal process, feedback and training to ensure that each of the Trustee Directors are performing in their role. **Member Complaints / Disputes** Over the 12-month period to September 2018, from its DC membership of circa 208,000 TPT received 18 formal complaints under the internal dispute resolution procedure about service in the DC Scheme, 5 of which were referred to the Appeals and Discretions Committee. There was one complaint referred to the Pensions Ombudsman in respect of DC schemes over the reporting period. This was resolved directly between the Ombudsman, the member and the employer, without further reference or compensation being required from TPT.
Scheme Administration	The Trustee believes that the performance of these services is appropriately monitored, and the actual performance has been very good. Evidence to support this conclusion includes: • The Scheme exceeding its SLAs in administration and performance objectives for investments. • Over the 12-month period to May 2018, JLT's average SLA was over 98%. • Common Data remains just below the standards expected by the Pension Regulator (94% against a benchmark of 95%), mainly due to deferred members not advising JLT of changes in their addresses.

Investment (fund management)

Default

The Trustee believes that:

- the default investment arrangement is suitable for the majority of its members and incorporates a well-designed investment glide path to retirement.
- TDFs provide significantly more investment flexibility and future-proofing than a Lifestyle approach

Evidence to support this conclusion includes:

- TDFs for 'younger' members have a performance expectation of CPI + 4% over the life of the fund. This performance expectation reduces as members approach retirement age, to CPI + 0%. Since inception all TDF's have beaten their respective benchmarks.
- Since the TDF funds started in February 2013 both equities and bonds have shown strong performance while inflation has been relatively subdued. As a result, all TDFs have exceeded their relevant CPI+X% performance expectations by large margins.

Self-select

The Trustee considers that the limited range of funds does not detract from the value for members.

Evidence to support this conclusion includes:

- The range of self-select funds offered to TPT members is less extensive than a number of comparator schemes.

However, the extent of member take-up of these wider options is unlikely to be high, and many of the 'additional' funds offered are likely to have been available to satisfy particular transfers-in of schemes being consolidated into the Trust.

Criteria	Notes / Conclusions
Member Communication & Engagement	The Trustee believes that it: • provides engaging member communications; • continually assesses and reviews the DC offering to members; • is committed to improving member communications in the future; and • is committed to understanding member needs. Evidence to support this conclusion includes: • From August 2018, TPT has operated a dedicated ring-fenced customer service centre for all DC members to call and speak to a TPT scheme expert. • Online access to individual records provided via BenPal. • A website is used for each DC arrangement, which provides the information that members need to know about their scheme, as well as more general information and educational material. • Helplines – TPT and JLT operate helplines for members during office hours (8.30am-5.00pm). • Enquiries email – Members can contact the TPT team at JLT via a dedicated mailbox. • TPT has partnered with JLT to provide members with an 'at retirement' service in respect of annuities and income drawdown options. Members are offered a two-tier service with a pricing structure to reflect the level of advice given. Members can use JLT's service or their own independent financial advisor. Members who choose not to use any such service are still given details of the choices available to them and are offered the use of an online facility, the Pensions Calculator (without charge), to assist them to make appropriate retirement choices. • TPT undertakes ongoing customer satisfaction surveys with its members. These surveys allow TPT to monitor the perceived quality and service that members are receiving and to identify areas for improvement. • Feedback from members is reviewed on a monthly basis to identify any recurring themes or new issues that may have arisen. • The annual Value for Members report.

Value for members is an evolving assessment. Each year the Trustee wants to ensure good value relative to other forms of saving and investment (especially DC pension saving). We will continue to work towards improvements in value over time.

Trustee knowledge and understanding

The Pensions Act 2004 requires the Trustee to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. The Trustee recognises the importance of having the right mix of skills, competencies and personalities on the Trustee to ensure that the Scheme is well governed and properly managed.

All Trustee Directors are required to meet the Trustee, Knowledge and Understanding standards required of a Trustee of a large master trust plus any requirements specific to their individual role on the Trustee Board within 6 months of appointment.

In particular, the Trustee Directors are required to demonstrate:

- a working knowledge of the trust deed and rules;
- a working knowledge of the current SIP;
- a working knowledge of all documents setting out the Trustee's current policies;
- that they have sufficient knowledge and understanding of the law relating to pensions and trusts;
- that they have sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes; and
- that their combined knowledge and understanding, together with available advice, enables them to properly exercise their functions.

How we have met requirements

In each Scheme year, the Trustee is required to demonstrate their knowledge and understanding in these areas as follows:

- All Trustee Directors are required to read and understand the Scheme Governance Document which includes details of all of the Scheme's governance arrangements, including conflicts of interest policy.
- All Trustee Directors are required to confirm that they meet the requirements of their role (as described in the Governance Document).
- All Trustee Directors are required to devote sufficient time to training in addition to training provided at Trustee and committee meetings – and are responsible for their own training programme and for completing the Pensions Regulator's Trustee Toolkit.

In the Scheme year, this is how the Trustee met the requirements.

The Trustee has access to the services of a range of professional advisers. All Trustee decisions are supported by professional advice where required, and this includes attendance of professional advisers at Trustee meetings. The Trustee's legal adviser attends each Trustee meeting (supporting a working knowledge of the trust deed and rules and the law relating to pensions and trusts) and the investment adviser attends all IC meetings (supporting a working knowledge of the relevant principles of funding and investment of occupational pension schemes).

TPT maintains a log of all training undertaken by the Trustee (collectively and individually) and organises training sessions as and when necessary. In the Scheme year, all Trustee Directors met or exceeded their specified training requirement to complete the Trustee Toolkit (new directors) and undertake a minimum of 25 hours Trustee training within the Scheme year.

The Trustee has received confirmation from each Trustee Director that they have completed the required amount of training during the year. Each Trustee Director has also provided evidence that they have successfully completed the Trustee Toolkit.

Review of the SIP (described earlier in this statement) was undertaken with professional advisers which supports a working knowledge of that current document.

Induction for new Trustee Directors

A comprehensive induction process is in place for all new Trustee Directors. All new Trustee Directors are required, within 6 months of appointment, to meet the Trustee Knowledge and Understanding standards required of a Trustee of a large master trust plus any requirements specific to their individual role on the Trustee Board, as described in the Trustee terms of reference (which are included in the Governance Document). The Trustee has received confirmation from the Board members that this was the case in the Scheme year.

In the Scheme year, three new Trustee Directors were appointed. They completed the induction in October 2017 within 1 month of being appointed. I was appointed as a new Trustee Director and chair on 1 October 2018 (i.e. in the 18/19 year).

Training

The Trustee follows an annual training programme to ensure all Trustee Directors have appropriate knowledge and understanding. In the Scheme year, the Trustee undertook training on, amongst other things:

- GDPR;
- Risk Management;
- Master Trust Authorisation; and
- Cyber Security.

This covers some of the major developments in the law of pensions and trusts and feeds into a working knowledge of relevant current policies.

The training programme is reviewed regularly to ensure it is up to date, and that knowledge gaps are identified by each Trustee Director carrying out a self-evaluation during the Scheme year. In addition, the Chair is asked to indicate if there are any knowledge gaps and/or it feels that a Trustee Director needs any specific training.

Such is the breadth and complexity of pension trusteeship, we have not managed to address all knowledge gaps identified during the Scheme year. Instead, the Trustee put in place a rolling programme to ensure gaps are filled promptly as follows. In the year ahead, the Trustee will be receiving training on amongst other things:

- the powers of the Pensions Regulator; and
- member communication and engagement.

Further knowledge gaps identified by rolling assessment will be filled in a similar way.

Assessment

The combined knowledge and understanding of the Trustee and its advisers enabled the Trustee to properly run the Scheme, in the Scheme year, as follows:

- Trustee Directors are able to challenge and question advisers, committees and other delegates effectively
- Trustee decisions are made in accordance with the Scheme rules and in line with trust law duties
- Trustee Directors' decisions are not compromised by such things as conflicts or hospitality arrangements

To ensure that Trustee Directors are effective in their assessment of whether they have demonstrated their knowledge and understanding, at the end of the Scheme year, each director's performance was reviewed as part of a formal appraisal process which identifies training gaps and influences the individual and group training programme for the forthcoming year.

In the Scheme year, the outcome of this appraisal process (designed with reference to the Scheme business plan) was, in summary:

All Trustee Directors completed a self-assessment questionnaire to evaluate their performance during the year and training needs. A similar assessment was completed in respect of each Trustee Director by either the Chair of the Trustee Board or the Senior Nominated Director.

All Trustee Directors attended an appraisal meeting with either the Chair of the Trustee Board or the Senior Nominated Director at which the responses to the questionnaires were discussed. The meeting included a discussion on areas of strength, areas for improvement and agreement on the actions to be taken to strengthen performance.

The appraisal process did not identify any material skills or experience gaps. There were, however, a number of training needs identified both on an individual and collective basis. Training will take place during 2019 to address these needs. Progress against actions required will be reviewed as part of the 2019 appraisal process.

Considering actions taken individually as Trustee Directors and collectively as a Trustee, and the professional advice available, I am confident that the combined knowledge and understanding of the Trustee enables it to properly exercise our functions as Trustee.

Trustee Independence

In the circumstances of the Scheme, the legislation requires that a majority of the Trustee Directors (including the Chair) must be "non-affiliated". In broad terms, "non-affiliated" means independent of the service providers and other commercial parties involved in the Scheme.

Majority Independent

There are nine Trustee Directors of Verity Trustees Limited. Three were nominated by the members, three were nominated by the employers and three, including the Independent Chair, were co-opted onto the Trustee Board by the member and employer-nominated directors.

In determining whether a Trustee Director is non-affiliated we have taken account of the detailed legal requirements (in summary):

- employment or similar relationships with service providers (or connected businesses) in recent times; and
- any payments made or received and any more general conflicts of interest.

We monitor non-affiliated status by way of governance processes which include such things as maintaining records of the length of the appointment and declarations of conflict as they arise and at Trustee meetings.

On the basis of the non-affiliation test (summarised above), the terms of appointment and our ongoing monitoring, we are comfortable that all of the Trustee Directors (including the Chair) were "non-affiliated" in the Scheme year.

Appointment process

The recruitment of non-affiliated Trustee Directors must be undertaken in an open and transparent manner. In the Scheme year, three non-affiliated Trustee Directors were appointed, two nominated by members (Member Nominated Directors or MNDs) and one nominated by the employers (Employer Nominated Directors or ENDs)

From 2017, the open and transparent recruitment process used in each case involved:

- A mailing being issued to all members and employers inviting them to nominate candidates.
- A nominee is entitled to stand as a MND candidate if he or she is a member of The Pensions Trust or The Pensions Trust 2016. Self-nomination is permitted. An employer can only nominate one person as an END candidate. A nominee does not have to be a member or work for an employer to stand as a candidate in the employers' election. There cannot be more than one employee of a participating employer on the Trustee Board at any one time.
- All candidates are required to complete an application form.
- Application forms are considered by a selection panel that assess the application against the job specification and required competencies agreed by the Trustee.
- There are two selection panels, one for MNDs and one for ENDs. Each selection panel will comprise five people as follows:
  - the Chair of the Trustee
  - the Chief Executive

- one existing MND/END as appropriate to the panel in question; and
- two representatives chosen from amongst the members/from amongst representatives put forward by employers, as appropriate to the panel in question.

- The selection panels select candidates to fill the availability using a competency based assessment criteria based upon the agreed job description and any identified skills gaps.

In our view, the process used meets the requirements for openness and transparency because the vacancies were widely advertised amongst those people eligible under the Rules to apply, applications came in from a variety of eligible candidates and the selection was made on the basis of the competencies set out in the job description which was available to candidates.

This differs from examples of open and transparent processes set out in legislation because of the circumstances of the Scheme. In particular:

- the Trustee Directors are responsible for defined benefits as well as DC (and the open & transparent process only applies to DC schemes), so we need to consider all elements of the Scheme in the appointment process; and

- the Trust Deed and Rules require that there must always be an equal number of MNDs and ENDS. Furthermore, MNDS must be members of TPT, which limits the potential candidates for these vacancies.

We recognise that an open and transparent process can also include advertisement of the vacancy for a Trustee Director in at least one appropriate national publication, engagement of the services of a recruitment agency to assist in the selection of candidates or a nomination and selection procedure of some or all of the members. These methods are adopted for the recruitment of co-opted directors.

Member Feedback

The Trustee is always pleased to hear the views of the members and encourage them (or their representatives) to make their views about the Scheme known.

Arrangements in place in the Scheme year to provide feedback include actively gathering feedback on a monthly basis through surveys undertaken by an independent provider (the results of which are fed back to the management team to enable TPT to identify problems and make service improvements). At the beginning of each year, TPT defines the outcomes that it wants for its members and uses the member feedback gathered each month to continually measure, modify and improve services.

In 2018 the Trustee ran a series of member forums across the country (Leeds, Birmingham, Edinburgh and London) to hear the views of members and encourage member feedback. 94 members attended the forums. After the forums, the attending members were asked to complete a feedback form. The majority of the members who attended the forums found them very helpful.

In addition, members can:

- raise concerns or queries to the contact details provided about the operational processes of the Scheme (contact details being provided in an annual newsletter and annual benefit statement); and
- use an "**Ask the Trustees**" function on TPT's website, whereby members can submit a question to the Trustee and receive an individual response.

The fact that we use different means of communication shows that we have designed the process with the size, nature and demographic of their scheme membership in mind. In particular, there are circa scheme 208,000 members, making this a very large scheme in relative terms. With that in mind, we consider the most effective means of member feedback to be by way of email (but allow other means of communication such as the member forums).

The dedicated email address for members to make their views known is **tptenquiries@jltgroup.com** and this is provided to members in routine communications.

This DC Governance Statement was approved and signed for and on behalf of the Trustee on 14 March 2019.

Joanna Matthews
Independent Chair
Verity Trustees Limited

Appendix 1 - Statement of Investment Principles

Trustee Statement of Investment Principles

Reviewed by the Investment Committee: 19 September 2018

Approved by the Trustee Board: 8 November 2018

1. Introduction

1.1. **The Pensions Trust** is an occupational pension scheme. In considering the appropriate investments, the Corporate Trustee, Verity Trustees Limited (the Trustee), has obtained and considered the written advice of their Investment Consultant, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has consulted the participating employers about this Statement of Investment Principles.

2. Appointments and Delegation

2.1. The Trustee has delegated investment decisions and compliance stewardship to a formal Investment Committee (IC) and a Chief Investment Officer (CIO) that report back to the Trustee.

2.2. The IC has delegated day-to-day investment management to authorised managers and has taken steps to satisfy itself that the managers have the appropriate knowledge and experience for managing TPT's investments. These appointments are regularly reviewed. The details of individual managers are published each year in the investment report within the Trustee's Annual Report.

3. Investment Beliefs

3.1 The Trustee has agreed a set of Investment Beliefs that the IC and CIO use as a framework when making decisions and agreeing investment strategy. The Investment Beliefs are reviewed annually and published each year and are published on TPT's **website**.

4. Investment Strategies for Defined Benefits assets

4.1 Investment strategy involves the decision on the mix between Liability Focused Assets (assets that will have similar characteristics to the liabilities, for example interest rate and inflation sensitivity) and Growth assets. Growth assets have the potential for higher returns but typically bring additional risk.

4.2 The investment strategy for each individual scheme will be determined after considering the liability and risk profile of the scheme. In addition, the investment strategy takes into account the underlying financial strength of the employer(s) and its ability and willingness to contribute appropriately to the scheme.

4.3 In order to meet the long-term funding objectives with an acceptable level of contributions, the Trustee seeks to control investment risk relative to each scheme's liabilities but does not necessarily fully match the liabilities.

4.4 By allocating to Growth assets the strategy targets a greater return than Liability Focused Assets are expected to provide. Investment risk is measured using different metrics, including the likely annual variation in return between the matching portfolio of investments and the investment strategy adopted.

4.5 The Growth portfolio aims to be well diversified between asset classes and return drivers. The strategy for each scheme is reviewed at least every three years to ensure it remains appropriate.

5. Investment Strategies for Defined Contribution assets

5.1 The Trustee recognises that individual members have differing investment needs, that these may change during the course of members' working lives and that members have differing attitudes to risk. The Trustee has established a suite of funds based on the 'target date fund' concept, i.e. funds that do not require members to make their own investment decisions and are designed to be suitable for members' own individual expected retirement date.

5.2 For those members who do wish to make their own investment decisions, self-select investment funds are available.

5.3 All funds are made available after the provision to the Trustee of appropriate written advice. In doing this the Trustee has taken into account the risk that the investments might not, over a member's working life, produce adequate returns and that during the period preceding retirement a change in investment market conditions might lead to a reduction in anticipated benefits.

5.4 The investment objective for the default strategy is set by the Trustee and is reviewed annually.

5.5 The performance of the default strategy funds and the 'self-select' funds is monitored on a quarterly basis by the IC and reviewed annually in conjunction with the managers of the funds.

5.6 The ongoing suitability of the default target date funds and the range of self-select funds is also reviewed annually by the IC.

5.7 The main risk is that the investment returns over the life of the funds fail to meet their fund-specific performance objective. For the target date funds, this is expressed as an investment return in excess of inflation (measured by CPI). The investment manager seeks to dampen the impact of short-term market moves by adjusting the asset allocation tactically. Over the life of the fund the strategic asset allocation shifts so that as a member approaches retirement the exposure to Growth assets is reduced in favour of more defensive, less volatile assets. The self-select funds are chosen by members who bear the risks associated with their chosen fund(s).

5.8 The range of DC funds comprises unitised products which are dealt on a daily basis and so are readily realisable.

5.9 The DC funds invest in a range of underlying funds which are managed by third party managers. The Trustee strives to ensure that these managers' environmental, social and governance (ESG) policies are in line with TPT's policies. A suite of ethical target date funds is available for members who wish to invest in accordance with ethical considerations.

5.10 The Trustee is unable to exercise voting rights on investments made through third party managers in pooled funds.

6. Investment Return

6.1 The IC and CIO determine the targets for each manager and monitor their performance using quarterly independent reports. The Trustee believes it is desirable to balance return and risk by using a combination of index tracking and active managers, and by taking account of the different investment styles of active managers. In the longer term this approach is expected to produce overall returns in excess of those of the relevant market indices. For the DC funds, the long–term performance of the target date funds depends on the asset allocation strategy of the manager; the self-select funds are designed to match the performance of the underlying index tracking funds (after allowing for fees).

7. Management and Risk

7.1 Investments are held by Custodians (or property deeds are held directly). Only designated persons can authorise the transfer of assets between managers. Each investment manager executes its own stock selection policy within asset allocation control targets agreed with the IC. The discretionary managers determine the investments held, subject to objectives agreed and reviewed from time to time. Most assets are quickly marketable. Investments may be realised from time to time as required to provide funds to make payment of benefits. Formal meetings are held regularly with the investment managers and custodians. By using a number of investment managers, the risk attached to adverse performance by any one manager is reduced. Derivative contracts can only be used with the prior agreement of the IC.

7.2 For DC, our relationship with the provider of the funds is governed by an insurance policy; the Trustee has no direct ownership of the underlying funds. The default funds and the self-select options invest in a range of (mainly) index tracking funds which are provided by leading investment houses. Regular meetings are held with the provider of the DC funds and the manager of the target date funds to assess protection for members and contingency plans. All funds are accessible on a daily basis.

7.3 The following risks, which are not exhaustive, are assessed and monitored regularly.

Risk	Description	Mitigation
Basis	Liabilities cannot be perfectly matched	Modelling of liabilities using Asset-Liability software enables risk relative to liabilities to be understood and monitored. Additionally, work with the LDI manager enables LDI approaches to be designed to mitigate mismatch risks
Concentration	A high proportion of the assets are invested in securities of the same, or related, issuer or in the same or similar industry sectors	Provide an appropriate spread of assets by type and spread of individual securities within each asset class through the overall investment arrangements
Counterparty	Schemes or managers enter into financial contracts with a third party which then fails, probably due to default, to fulfil its obligations	Set an appropriately high minimum credit rating of counterparties to transact with and limit the exposure to any single counterparty. Collateral is required from counterparties to financial contracts to mitigate the loss in the event they fail to fulfil their obligations under the contracts
Covenant	Financial capacity and willingness of the sponsoring employers to support the scheme	Monitor and review on a regular basis
Credit	Default by issuers of financial assets and the risk that the value of these assets depreciates as a result of an increase in the overall level of perceived credit risk in the market	Control by imposing limits on the amount and type of credit assets that can be held
ESG & Climate Change	Downside risks that results from environmental, social and governance (ESG) related factors including climate change.	Responsible Investment policy sets out ESG risk management strategy as an integral part of investment decision making process, with specific reference to climate change.
Foreign Exchange	Losses that result from unhedged overseas investments	Implement a dedicated foreign currency hedging programme
Illiquidity	Inability of assets to be sold quickly or sold at fair market values	Set a prudent limit for the proportion of liquid assets to be held in the portfolio and monitor the exposure on a regular basis

Longevity	Pensioners live longer than expected, leading to greater than expected benefit payments being made	Monitor schemes' mortality experience and mortality trends, and consider the likely outlook for future experience. Carry out sensitivity testing on the mortality assumptions to determine the impact of changes in the assumptions
Manager	Investment managers persistently underperform their performance objectives	Maintain a robust manager selection and monitoring process, manager diversification, tracking error limits and performance targets
Mismatch	Mismatch between the schemes' assets and liabilities, particularly in relation to the impact of changes in long term interest rates and inflation	Implement bespoke liability hedging solutions to manage a significant portion of the mismatch risk for each scheme
Operational	Loss arising from insufficient internal processes, people or systems and external events. This includes risk arising from the custody or transfer of assets, either internally or from new schemes entering the Trust (see 7.1)	Ensure processes and procedures are robust, documented and operated by trained personnel. Appropriately test systems and put in place appropriate business continuity plans
Strategic Investment	The selected long-term investment strategy fails to deliver the level of expected return or risk characteristics necessary to meet the underlying schemes' objectives	Set risk measures and limits, to be monitored regularly. Consider valuation metrics for investments, review strategic allocations on a regular basis

8. Responsible Investment, Climate Change, Voting and Engagement

8.1 The Trustee will act wherever reasonably possible as a responsible asset owner and market participant across all of its investments. The Trustee believes that responsible investment (incorporating Environmental, Social and Governance factors) reduces investment risk and has the potential to enhance returns and it has set out its framework for integrating this into the investment process in its Responsible Investment policy.

8.2 The Trustee is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and supports other industry wide initiatives to promote responsible investment

8.3 TPT's Climate Change Policy is a strategic part of its approach to being a responsible investor. The policy drives an understanding of exposure to climate change risks and opportunities at the portfolio level for both DB and DC investments, and it helps to ensure that new and existing investments are managed in a way that takes account of these risks.

8.4 TPT's Voting and Engagement policy requires its investment managers to follow the PLSA's Corporate Governance Policy and Voting Guidelines, the G20/OECD Principles of Corporate Governance and the ICGN's Statement on Global Governance, unless it is the case that the investment manager's own Voting & Engagement policies better reflect TPT's Investment Beliefs.

8.5 The IC takes appropriate steps to implement and monitor these policies and will take due account of these matters in the manager selection and monitoring process. Where relevant it will formally include reference to its expectations on ESG in the legal documentation its puts in place with managers and service providers.

8.6 In the case of DC, the underlying investments comprise mainly pooled index tracking funds managed by third-party managers. To the extent possible the Trustee seeks to implement its Responsible Investment and Climate Change policies into the underlying investment, which may include allocating to ESG indices and/or low-carbon investments where appropriate. The Trustee provides ethical investment options for both its Defined Benefit and Defined Contribution schemes.

9. Funding Requirements

9.1 The Trustee receives independent professional advice from its actuary in order to ensure that the funding obligations of the Pensions Act 1995 and the Pensions Act 2004 are complied with. Each scheme is individually valued in order to assess its own funding position relative to its obligations to members.

10. Compliance

10.1 The IC requires all investment managers to confirm, through their reporting, that the investments are diversified and suitable, and that they have complied with the principles set out in this Statement. The Trustee will review this Statement annually and without delay after any significant change in investment policy.

10.2 Consultation with participating employers will be undertaken if these investment principles change.

10.3 The investment strategy and expected return details of individual schemes will be available to members of that scheme on request from TPT.

10.4 In the case of DC a common investment policy is offered to all employers, with the target date funds being offered as the default and members able to choose from a range of self-select options. Fact sheets on all the DC funds are available to members on TPT's **website**.

Appendix 2 - Default Arrangement Illustrations

Notes to the default arrangement cumulative illustrations

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. **The starting pot size is assumed to be £1,500 at age 22 for a member retiring at age 68.**
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to be paid at the beginning of each month from age 22 to 68 and increase in line with assumed earnings inflation of CPI plus 1.0% each year on the anniversary of the first contribution.
5. Initial contribution level is assumed to be £120 per month.
6. Values shown are estimates and not guaranteed.
7. The projected future growth rate, after all costs and charges have been deducted, for the default strategy is CPI + 4% up until age 50, then CPI + 3% until age 56, then CPI +1.5% until age 65 and CPI + 0% thereafter. These are in line with the targets set for the default strategies by the Trustee. For the purposes of these illustrations these rates, gross of charges, has been capped at 2.5% plus estimated transaction costs in line with DWP guidance and for the period to 5 April 2019.
8. For each TDF strategy, the indicative member pot has been projected forward and, in the respective column, adjusted for the annual Ongoing Charges Figure (OCF) as well as the transaction costs at both the underlying asset level (resulting from the buying and selling of assets) and at the fund level (resulting from fund pricing spreads).The transaction costs at the underlying fund level are an estimate of the costs that are incurred as a result of trading costs within the TDF strategies. The transaction costs at the fund level are an estimate of the trading costs (average spread to mid) incurred when buying and selling units in TDF strategies. The costs have been calculated based on data spanning 1 January 2018 to 30 June 2018. The OCFs used in the calculations are forward looking and represent the total cost paid by members for investment in the strategies. Furthermore, we note that the transaction costs incurred when buying and selling the TDF strategies has been included in this analysis, which is noted as optional for trustees and investment managers within the guidance provided by the DWP.
9. Charges are based on a prudent historical average of charges (as a percentage of the fund invested) including all member borne charges and underlying transaction costs. This is likely to overestimate the impact of these costs and charges as it is likely they will fall through time as the size of the plan grows and provision of administration and investment services to the plan becomes more efficient.
10. The provision of these outcomes on behalf of members assumes the provision of administration and investment services, as such the numbers shown for the accumulated fund allowing for investment returns but before the deduction of costs and charges is purely hypothetical and does not represent an achievable member outcome. In addition the Trustee is required to provide value for money to members and as such it would be inappropriate to assume that lower costs and charges would necessarily equate to better member outcomes i.e. that the assumed level of overall service to members, including the investment returns achieved, could be maintained at a lower cost.
11. **The default investment arrangement tables do take account of transaction costs but subject to our comments under "further information" in this respect.**

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Standard Default Arrangement		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	2,998	2,984
3	4,363	6,154	6,083
5	7,345	9,533	9,366
10	15,066	19,044	18,434
15	23,180	30,251	28,847
20	31,707	43,403	40,764
25	40,670	58,783	54,362
30	50,090	76,714	69,836
35	59,991	97,106	87,019
40	70,396	118,516	104,539
46	83,586	141,675	122,642

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Ethical Default Arrangement		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	2,998	2,979
3	4,363	6,154	6,058
5	7,345	9,533	9,307
10	15,066	19,044	18,218
15	23,180	30,251	28,351
20	31,707	43,403	39,841
25	40,670	58,783	52,851
30	50,090	76,714	67,537
35	59,991	97,309	83,850
40	70,396	119,940	101,126
46	83,586	145,003	119,072

Appendix 3 – Self-select Arrangement Illustrations

Notes to the default and self-select cumulative illustrations:

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. **The starting pot size is assumed to be £1,500 at age 22 for a member retiring at age 68.**
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed to be paid at the beginning of each month from age 22 to 68 and increase in line with assumed earnings inflation of CPI plus 1.0% each year on the anniversary of the first contribution.
5. Initial contribution level is assumed to be £120 per month.
6. Values shown are estimates and not guaranteed.
7. The projected future growth rate, after all costs and charges have been deducted, for the self-select options are as set out below. For the purposes of these illustrations these rates, gross of charges, have been capped at 2.5% plus estimated transaction costs in line with DWP guidance and for the period to 5 April 2019.
    - 7.1 Global Equity Fund: 3.55% above inflation
    - 7.2 Bond Fund: 0.55% above inflation
    - 7.3 Cash Fund: -1.96% below inflation
    - 7.4 Diversified Growth Fund (DGF): 2.53% above inflation
    - 7.5 Index-Linked Gilts Fund: -0.45% below inflation
    - 7.6 Property Fund: 1.50% above inflation
    - 7.7 Socially Responsible Investment (SRI) Fund: 3.55% above inflation.
8. Charges are based on a prudent historical average of charges (as a percentage of the fund invested) including all member borne charges and underlying transaction costs. This is likely to overestimate the impact of these costs and charges as it is likely they will fall through time as the size of the plan grows and provision of administration and investment services to the plan becomes more efficient.
9. The provision of these outcomes on behalf of members assumes the provision of administration and investment services, as such the numbers shown for the accumulated fund allowing for investment returns but before the deduction of costs and charges is purely hypothetical and does not represent an achievable member outcome.
10. In addition the Trustee is required to provide value for money to members and as such it would be inappropriate to assume that lower costs and charges would necessarily equate to better member outcomes i.e. that the assumed level of overall service to members, including the investment returns achieved, could be maintained at a lower cost.
11. **Please note that the self-select illustrations do NOT take full account of transaction costs. They are not, therefore, directly comparable with the corresponding tables for the default investment arrangements. The default investment arrangement tables do take account of transaction costs but subject to our comments under "further information" in this respect.**

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Global Equity Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	3,082	3,081
3	4,363	6,593	6,591
5	7,345	10,617	10,613
10	15,066	23,381	23,372
15	23,180	41,098	41,083
20	31,707	65,537	65,512
25	40,670	99,088	99,051
30	50,090	144,985	144,930
35	59,991	207,601	207,523
40	70,396	292,852	292,742
46	83,586	436,481	436,317

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Bond Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	3,012	3,010
3	4,363	6,220	6,217
5	7,345	9,690	9,686
10	15,066	19,630	19,623
15	23,180	31,632	31,620
20	31,707	46,054	46,037
25	40,670	63,318	63,295
30	50,090	81,916	83,885
35	59,991	108,420	108,380
40	70,396	137,500	137,449
46	83,586	179,543	179,476

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Cash Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	2,953	2,952
3	4,363	5,926	5,924
5	7,345	8,991	8,987
10	15,066	17,066	17,059
15	23,180	25,761	25,751
20	31,707	35,113	35,100
25	40,670	45,163	45,146
30	50,090	55,951	55,929
35	59,991	67,521	67,495
40	70,396	79,919	79,889
46	83,586	95,960	95,923

Projected Pension Pot in Today's Money (as at 31 December 2018 with a starting pot size of £1,500)			
	Diversified Growth Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	3,059	3,057
3	4,363	6,466	6,460
5	7,345	10,293	10,285
10	15,066	22,017	22,000
15	23,180	37,531	37,501
20	31,707	57,937	57,890
25	40,670	84,653	84,584
30	50,090	119,502	119,406
35	59,991	164,830	164,697
40	70,396	223,650	223,469
46	83,586	317,573	317,316

Projected Pension Pot in Today's Money (as at 31 December 2018) with a starting pot size of £1,500)			
	Index-Linked Gilts Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	2,988	2,987
3	4,363	6,101	6,098
5	7,345	9,403	9,400
10	15,066	18,553	18,546
15	23,180	29,103	29,092
20	31,707	41,227	41,212
25	40,670	55,116	55,096
30	50,090	70,984	70,958
35	59,991	89,069	89,036
40	70,396	109,636	109,595
46	83,586	138,008	137,957

Projected Pension Pot in Today's Money (as at 31 December 2018) with a starting pot size of £1,500)			
	Property Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	3,035	3,033
3	4,363	6,338	6,332
5	7,345	9,976	9,967
10	15,066	20,736	20,719
15	23,180	34,309	34,280
20	31,707	51,336	51,293
25	40,670	72,604	72,544
30	50,090	99,074	98,991
35	59,991	131,920	131,810
40	70,396	172,575	172,432
46	83,586	234,166	233,971

Projected Pension Pot in Today's Money (as at 31 December 2018) with a starting pot of size £1,500)			
	Socially Responsible Investment (SRI) Fund		
Years	Accumulated contributions ***before*** investment returns, costs and charges	Projected fund value ***before*** the deduction of costs and charges	Projected fund value ***after*** the deduction of costs and charges
1	1,440	3,082	3,081
3	4,363	6,593	6,591
5	7,345	10,617	10,613
10	15,066	23,381	23,372
15	23,180	41,098	41,083
20	31,707	65,537	65,512
25	40,670	99,088	99,051
30	50,090	144,985	144,930
35	59,991	207,601	207,523
40	70,396	292,852	292,742
46	83,586	436,481	436,317