

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

## What is this Statement for?

It's important that you can feel confident that your savings in the AXA UK Group Pension Scheme ("the Scheme") are being looked after and give good value.

This Statement sets out how the Trustee Directors have managed the Scheme in the last year and what they aim to do in the coming year. A copy of this Statement, together with other key Statements about how the Scheme is managed are posted on-line at [www.axa-employeebenefits.co.uk](http://www.axa-employeebenefits.co.uk).

## What's in this Statement?

We've included information on the following areas in this Statement:

1. How we manage your Scheme – who the Trustee Directors are and what guides our decision making;
2. Investment options – what we have done to check the performance and suitability of the Scheme's investment options, especially those used by members who don't want to make an investment choice (known as the "default arrangement");
3. Cost and charges – what costs and charges you have paid in the last year and how these might impact the size of a typical member's savings in the Scheme over time;
4. Value for Members - how the quality of the Scheme's services (including the investment returns on your savings) which you pay for compare to other pension schemes.
5. Administration – how well the Scheme has been administered including how promptly and accurately key transactions (such as the investment of your contributions) have been processed;
6. Trustee knowledge – what we as Trustee Directors have done to maintain our level of knowledge and obtain the professional advice we need to look after the Scheme for you;
7. Feedback – what feedback we have received from the Scheme's members in the last year; and
8. Our plans for the next year – what key actions the Trustee took in the last year and what we aim to do in the coming year to continue to improve the Scheme for all our members.

## What were the highlights from the last 12 months?

1. **How we manage your Scheme**

Anna Colombatti and Marcus Taylor were appointed as a new Trustee Directors in the year to 31 March 2020 with Nirali Patel leaving the Board.

The Statement of Investment Principles, which sets out the Trustee's policies on how your contributions should be invested, was updated on 20 September 2019 to reflect the Trustee's beliefs in managing Environmental, Social and Governance (ESG) and climate risks.

At 31 March 2020 the DC Section of the Scheme had 27,001 members and was worth a total of £676.0 million.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

## 2. Investment options

We completed an in-depth review of the Scheme's default arrangement in two parts, on 26 February 2018 and 25 April 2019. We're satisfied that the default arrangement has performed in-line with our expectations and remains suitable for most members because the membership profile remains broadly unchanged. During the review we identified areas for further improvement. These changes are pending and there have been no changes to the investment options in the last year.

Over the last year, the funds in the default arrangement have performed in line with benchmark except the AXA Diversified Growth Active Fund. This fund has a benchmark based on cash and inflation plus a margin which is not expected to correlate with the movements of growth assets in a time of market downturn. We believe that the underperformance compared to the benchmark over the year to 31 March 2020 can be justified for this fund – see section 2 for more details.

There is a possibility of moving the Scheme to a Master Trust arrangement in the coming year. At the time of writing this option is under consultation with members. No full review of the investment options is scheduled to be completed until a decision has been reached with regards to this.

## 3. Cost and charges

You pay for your investment and administration costs (which includes communications issued by the administrator) while the Company pay for governance costs.

We monitored the costs and charges going out of members' pension pots during the last year:

- The charges in the last year for the “default arrangement” were 0.21% to 0.66% of the amount invested (or put another way £2.10 to £6.60 for every £1,000 invested) – which is within the “charge cap” for auto-enrolment in our Scheme required by the Government.
- We have also looked at how the costs and charges taken out of a typical member's pension pot each year might affect its future size when they come to retire. The projected pots for typical members can be found in Appendix 3 (“Tables illustrating the impact of charges and costs”).

Being part of a large pension scheme means that you are able to benefit from bulk-purchasing which gives you lower investment and administration costs than you might be able to achieve in other pension arrangements.

## 4. Value for Members

Each year we look at the costs and charges you pay as well as the range and quality of the services you pay for and see how they compare with similar pension schemes. We found that the Scheme gave **good** value in the last year.

## 5. Administration

The Trustee monitors the performance of the Scheme's administration against the agreed service levels, through quarterly administration reports, and notes the following:

- Core financial transactions were mostly processed promptly, accurately and efficiently for the year to 31 March 2020;
- Over the 12-month period, the administrator, Aegon, achieved 92% adherence to service standards; this was below the target service levels of 95%; and
- The Trustee monitored this underperformance and met with Aegon each quarter to review and consider the required action to improve performance. In addition, the in-house pension team undertook regular operational reviews with Aegon to monitor overall service to members. The Trustee notes that service levels have since improved in the latter half of the Scheme's year end and have met the required overall service standards.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

The Covid19 coronavirus pandemic inevitably affected the Scheme in March 2020:

- Aegon arranged for most of its staff to work from home and dealt with increases in staff absences;
- Trading in property funds was suspended because of the difficulty in fairly valuing properties; and
- There were delays in getting some funds' unit prices because the prices of investments were fluctuating more than normal.

## 6. Trustee knowledge

It's important that we as Trustee Directors keep our knowledge of pension and investment matters up to date and have access to sound professional advice. The Trustee has a programme of training for Trustee Directors to update their knowledge of pension matters and undertake an annual skills and knowledge assessment. The Trustee is satisfied that the combination of their knowledge and understanding together with access to suitable advice enabled it to properly exercise its duties during period covered by this Statement– see section 6 for more details.

There have been no changes to the Trustee's advisers during the year. Overall, the Trustee believes that they have the right skills and expertise together with access to good quality professional advice so that they can run your Scheme properly.

## 7. Feedback

Aegon has set up a website (<https://lwp.aegon.co.uk/targetplan/>) specifically for our members where you can find information on how your savings are building up and your investment options.

If you need more information, please visit <http://pensions.axa-employeebenefits.co.uk/> and if you have any comments or questions please contact the Scheme's administrator on 0345 603 4048 or by email [axapensionsadmin@aegon.co.uk](mailto:axapensionsadmin@aegon.co.uk).

## 8. Our plans for the next year

During the next year the Trustee aims to:

- Communicate a summary of the results of this value for member assessment in the Chair's Statement, which will be posted on-line;
- Assist the Company with moving the DC membership to a Master Trust arrangement to enhance value through lower charges, access to better quality communications and retirement support for members;
- Update the Statement of Investment Principles ("SIP") to reflect the 2019 Regulations on Responsible Investment which come into force on 1 October 2020;
- Complete their first Statement describing how they have followed the policies in the Scheme's Statement of Investment Principles over the Plan year;
- Continue to monitor administration performance levels each quarter and to review and consider any required action to ensure that any missing information is obtained; and
- Undertake a mid-year review to monitor value for members progress and further embed value into the Scheme's governance.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

We were unable to obtain some information on the Scheme – this is set out at the end of section 8. We are chasing the administrator for this missing information.

The rest of this Statement goes into more detail - please read on if you want to find out more about how we have managed your Scheme in the last year.

**The Annual statement by the Chair of the Trustee Board for the year to 31 March 2020 on pages 26 to 50 is approved by:**

Stephen Yandle

\_\_\_\_\_ Date: 29 September 2020

**Mr Stephen Yandle**

**Chair of the Trustee Board of the AXA UK Group Pension Scheme**

## Introduction

Governance requirements apply to defined contribution (“DC”) pension arrangements like the Scheme, to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement describing how these governance requirements have been met.

This Statement covers the period from 1 April 2019 to 31 March 2020.

### **For the record**

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

## 1. How we manage your Scheme

At 31 March 2020, the Trustee Directors of the Scheme were:

Stephen Yandle; David Felder on behalf of the Law Debenture Trust Corporation plc; Dianne Chua; Andrew Bradshaw on behalf of Ross Trustee Services Limited; Anna Colombatti; Ken Smith; Marcus Taylor.

Marcus Taylor and Anna Colombatti became Trustee Directors on 15 April 2019. Nirali Patel resigned as a Trustee Director on 12 April 2019.

The Trustee, with the help of their advisers, review the Statement of Investment Principles at least every three years. This statement sets out the Trustee’s investment policies. The last review was carried out in 2019 and the Statement was changed on 20 September 2019 to reflect the Trustee’s beliefs in managing Environmental, Social and Governance (ESG) and climate risks.

The Trustee plans to complete its annual report and accounts in advance of 1 October 2020. This means that there would be no requirement for the production of an implementation statement setting out how the Trustee complied with the Statement of Investment Principles during the year to 31 March 2020. If the accounts are completed after 1 October 2020 an implementation statement will be published after completion of the accounts.

Over the year to 31 March 2020 the number of members grew to 27,001 while the total value of Schemes’ assets fell from £697.8m to £676.0m. It should be borne in mind that, as a result of the Coronavirus pandemic, global equity markets fell by up to 28% between 12 February 2020 and 23 March 2020.

## 2. Investment options

### Default arrangement

The Scheme's default arrangement, the Drawdown Lifecycle Strategy, is designed for members who join the Scheme and do not choose an investment option. The Trustee is responsible for the governance, of the default arrangement which includes setting and monitoring its investment strategy.

The Trustee decided that the default arrangement should be a lifestyle strategy, which means that members' contributions are automatically moved between different funds as they approach their selected retirement date.

The main objective of the default arrangement is to provide good member outcomes at retirement. The Trustee believes that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members' face during their membership of the Scheme;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for the majority of members who do not make investment choices;
- Enables investments to be readily realisable subject to market conditions;
- Considers Environmental, Social and Governance (ESG) issues; and
- Reflects members' likely benefit choices at retirement.

The Statement of Investment Principles covering the default arrangement is appended to this Statement. Please note that the Statement of Investment Principles covers all the Scheme's investments – the principles guiding the design of the default arrangement are set out on page 81.

The Trustee believe that the default arrangement is appropriate for the majority of the Scheme's members taking into account a number of aspects of the Scheme's membership including:

- The members' age and salary profile;
- Members' projected personal account sizes at retirement; and
- Contribution levels.

The default has been constructed to:

- Gradually move investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Target members who are expected to use Flexible Access Income Drawdown during their retirement.

The Trustee regularly monitors the investment performance of the default arrangement and formally reviews both the investment performance against the default arrangement's objectives and the suitability of the investment strategy at least every three years.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

No full review of the performance and suitability of the default arrangement was due to be undertaken during the year. The last full review was completed in two parts, on 26 February 2018 and 25 April 2019. The next full review is intended to take place by April 2022 or immediately following any significant change in investment policy or the Scheme's member profile.

The Trustee is satisfied that the default arrangement remains appropriate for the majority of the Scheme's members at this time because:

- Its investment performance has been consistent with its investment objectives;
- Its design continues to meet its principal investment objectives;
- The demographic profile of the membership has not changed materially; and
- Members' needs and likely benefit choices at retirement have not changed materially.

However, the Trustee has proposed the following change to be made as a result of this review to further improve the default arrangement:

- Introduction of a new fund for the consolidation phase of the glidepath called the AXA Diversifiers Fund. This will form part of the default arrangement to replace the AXA Diversified Active Fund and AXA Absolute Return Bond Fund.
- The Trustee believes that a better approach to the consolidation phase of the default arrangement would be to gain access to the easily replicable elements of the AXA Diversified Active Fund through direct holdings in these asset classes, and then to gain the remainder of the required asset class exposure through a packaged pooled fund.

The AXA Diversifiers Fund is due to be implemented in the coming year.

## **Other investment options**

The Trustee recognises that the default arrangement will not be suitable for the needs of every member and so the Scheme also offers members a choice of other investment options including the Annuity Lifecycle lifestyle option and 18 self-select funds. The main objectives of these investment options are:

- To cater for the likely needs of a wider range of members;
- To cater for members looking to take different benefits at retirement than those targeted by the default arrangement;
- To offer a wider range of asset classes, levels of risk and return and different investment approaches including ethical investment; and
- To support members who want to take a more active part in how their savings are invested.

The Trustee carries out an in-depth review of the performance and suitability of these other investment options at least every three years. The last full review was completed on 25 April 2019 where the Trustee found that the investment options for the funds were suitable. Some of the actively managed funds have had mixed performance compared to their respective benchmarks and the Trustee continues to closely monitor the suitability of these funds.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

In keeping with the Pensions Regulator’s guidance, the Trustee also carries out an annual high-level review of the performance and suitability of these other investment options. There were no issues with these investment options last year.

## 3. Costs and charges

The charges and transaction costs borne by members and/or the Company for the Scheme’s services are:

Service	By members	Shared	By the Company
Investment management	Yes	-	-
Administration & Communications	-	Yes	-
Governance	-	-	Yes
Investment transactions	Yes	-	-

**Basis for cost sharing:** Members pay an annual management charge that covers the costs of investment fees; administration and communications issued by the administrator.

The presentation of the charges and transaction costs, together with the projections of the impact of charges and costs on members’ benefits over time, have taken into account the statutory guidance issued by the Department for Work and Pensions. The Trustee of the Scheme has followed the statutory guidance in all areas.

### Charges

The charges quoted in this Statement are the funds’ Total Expense Ratios (“TERs”). The TER consists of a fund’s Annual Management Charge (“AMC”) and Operating Costs and Expenses (“OCE”). OCEs include, for example, the fund’s custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

The investment-based charges borne by members include 0.18% p.a. towards the costs of the Scheme’s administration.

### Transaction costs

The funds’ transaction costs are in addition to the funds’ TERs and can arise when:

- The fund manager buys or sells part of a fund’s portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are deducted before the funds’ unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund’s investment performance.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

The Financial Conduct Authority (“FCA”) requires fund managers and providers to calculate transaction costs using the “slippage method”, which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

The transaction costs shown in this statement are those taken from funds while members are invested in them. The transaction costs shown here do not include any costs members may incur from time to time when buying or selling units in the funds caused by the fund manager’s unit price for a fund moving from a “bid” to “offer” basis (or vice versa) or any other “dilution levy” when units in that fund are bought or sold to protect the value of the fund for other investors.

## Member-borne charges and transaction costs

The charges and transaction costs have been supplied by the Aegon. It was not possible to obtain the charges and transaction costs for some funds and some of the information was missing for the period covered by this Statement. More details are given in “Missing Information” in section 8.

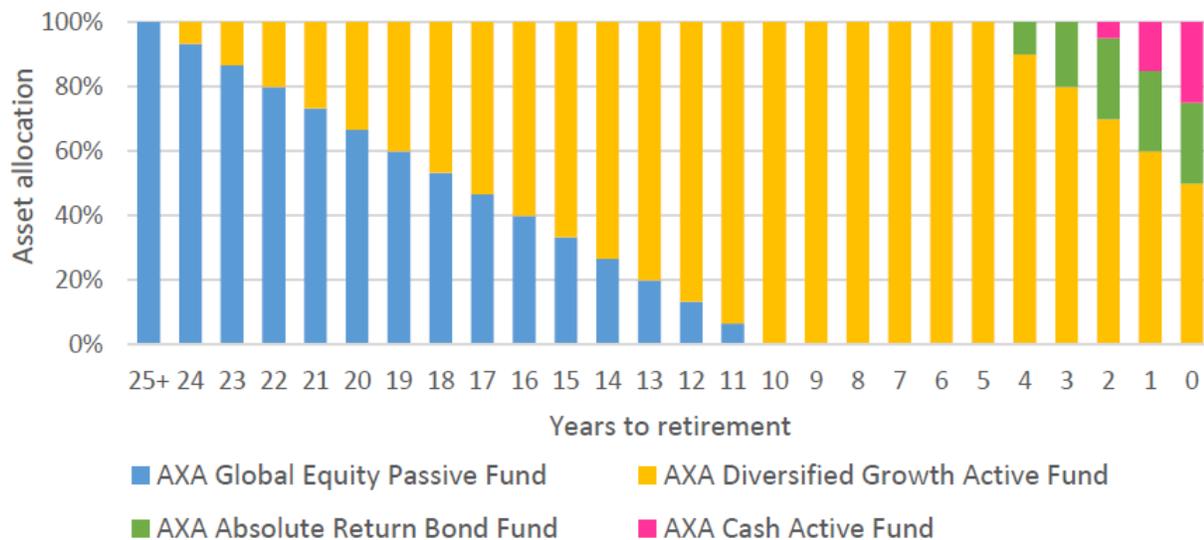
## Default arrangement

The Trustee is required to provide the level of charges applicable to each default arrangement during the Scheme year.

## Drawdown Lifecycle - charges and transaction costs

The default arrangement is a “lifestyle strategy” which invests contributions in funds according to how far each member is from retirement. As a result, charges borne by each member can vary from one year to the next. This means that the level of charges and transaction costs borne by members can vary from year to year depending on how close members are to their selected retirement age and in which fund they are invested at that time. The asset allocation at each point in time is shown in the chart below.

Asset Allocation for the default Drawdown Lifecycle



# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

During the year covered by this Statement the member-borne charges for the default arrangement were in a range from 0.21% to 0.66% of the amount invested or, put another way, in a range from £2.10 to £6.60 per £1,000 invested.

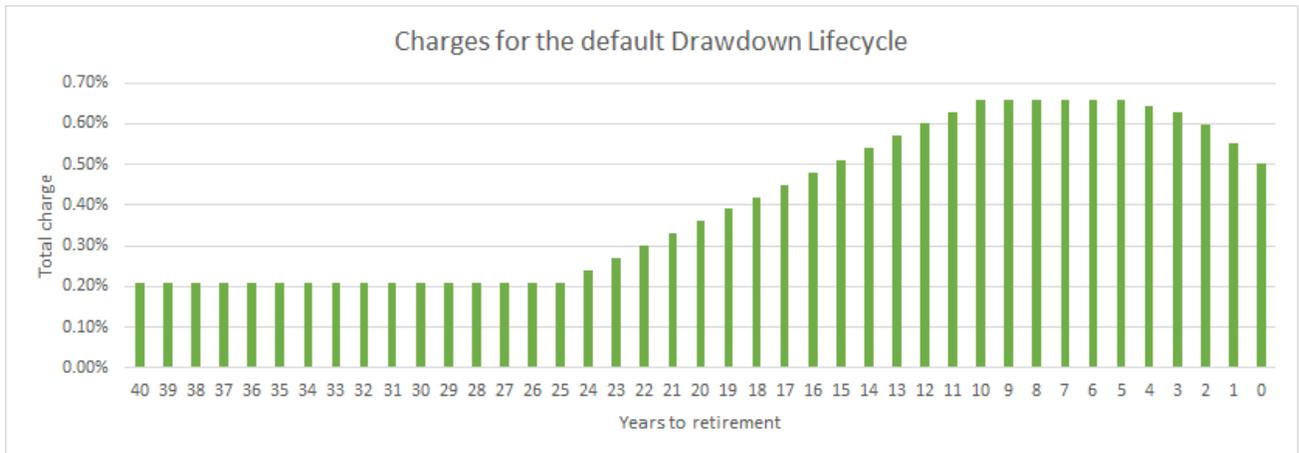
The transaction costs borne by members in the default arrangement during the year were in a range from 0.01% to 0.40% of the amount invested or, put another way, in a range from £0.10 to £4.00 per £1,000 invested.

For the period covered by this Statement, the annualised charges and transaction costs are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
40 to 25 years	0.21%	£2.10	0.01%	£0.10
24 to 11 years	0.24% to 0.63%	£2.40 to £6.30	0.04% to 0.37%	£0.40 to £3.70
10 to 5 years	0.66%	£6.60	0.40%	£4.00
4 to 1 years	0.65% to 0.55%	£6.50 to £5.50	0.40% to 0.33%	£4.00 to £3.30
At retirement	0.50%	£5.00	0.29%	£2.90

Source: Aegon

The following chart also shows graphically how these charges vary from year to year:



Over a 40-year saving period the average charge for the default arrangement is 0.40% p.a. The table in Appendix 2a gives the charges and transaction costs for each fund used by the default arrangement.

The following investment options are also considered to be “default arrangements” for some members:

- The AXA Cash Active Fund, where regular contributions to the AXA Property Fund have been directed to as the AXA Property Fund is currently suspended.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

During the year covered by this Statement the member-borne charges for the AXA Cash Active Fund were 0.18% of the amount invested or, put another way, £1.80 per £1,000 invested.

The transaction costs borne by members in the default arrangement during the year were 0.01% of the amount invested or, put another way, £0.10 per £1,000 invested.

For the period covered by this Statement, the annualised charges and transaction costs are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
All terms	0.18%	£1.80	0.01%	£0.10
At retirement	0.18%	£1.80	0.01%	£0.10

Source: Aegon

The Scheme is a qualifying scheme for auto-enrolment purposes and the member borne charges for the default arrangement complied with the charge cap during the year covered by this Statement.

## Charges and transaction costs for the investment options outside the default arrangement

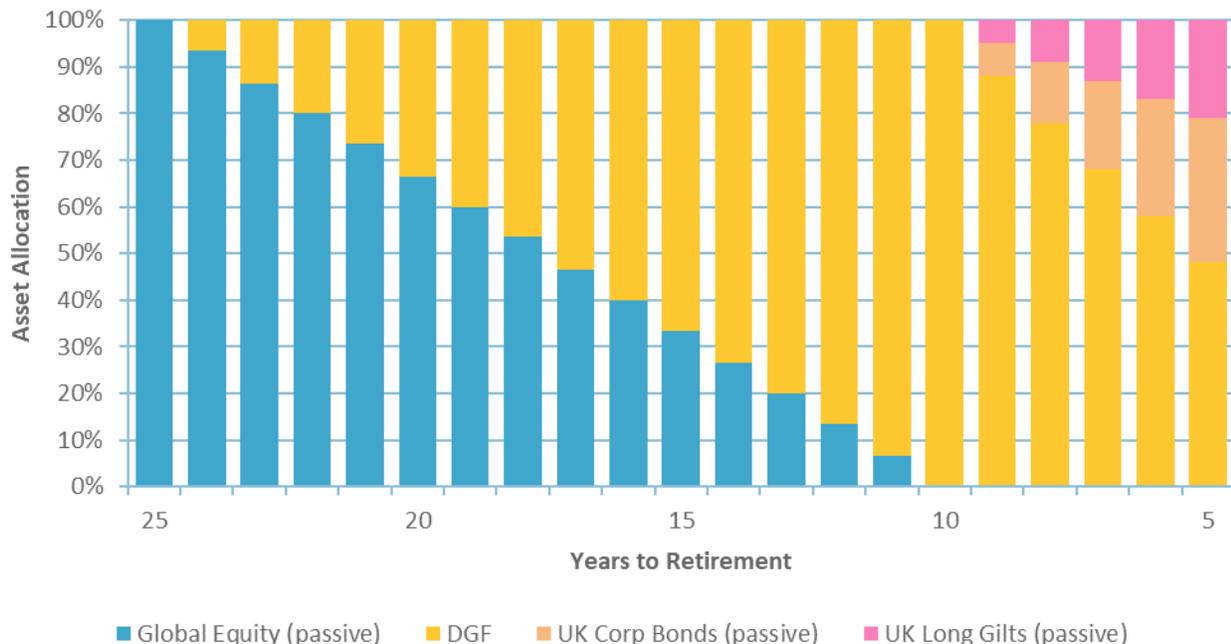
In addition to the default lifestyle, members also have the option to invest in one other lifestyle arrangement, targeting annuity purchase and 18 self-select funds.

### Annuity Lifecycle Strategy

The Annuity Lifecycle Strategy outside the default arrangement also invest contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

The Annuity Lifecycle Strategy (outside the default arrangement) also invests contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

Asset Allocation for the Annuity Lifecycle



# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

During the year covered by this Statement the member-borne charges for the Annuity Lifecycle Strategy were in a range from 0.19% to 0.66% p.a. of the amount invested or, put another way, in a range from £1.90 to £6.60 per £1,000 invested.

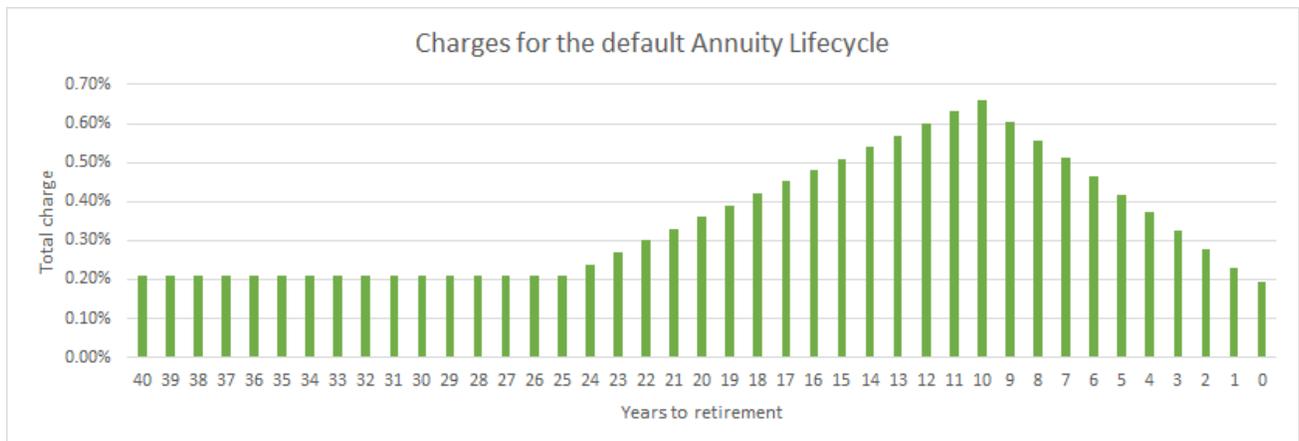
The transaction costs borne by members in the Annuity Lifecycle option during the year were in a range from 0.01% to 0.40% of the amount invested or, put another way, in a range from £0.10 to £4.00 per £1,000 invested.

The annual charges for the Annuity Lifecycle option during the period covered by this Statement are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
40 to 25 years	0.21%	£2.10	0.01%	£0.10
24 to 11 years	0.24% to 0.63%	£2.40 to £6.30	0.04% to 0.37%	£0.40 to £3.70
10 to 5 years	0.66% to 0.42%	£6.60 to £4.20	0.40% to 0.20%	£4.00 to £2.00
4 to 1 years	0.37% to 0.23%	£3.70 to £2.30	0.16% to 0.05%	£1.60 to £0.50
At retirement	0.19%	£1.90	0.01%	£0.10

Source: Aegon

The following chart also shows graphically how these charges vary from year to year:



Over a 40-year saving period the average charge for the Annuity Lifecycle arrangement is 0.34% p.a. The table in Appendix 2b gives the charges and transaction costs for each fund used by the Annuity Lifecycle arrangement.

## Self-select funds

The Scheme offers members a choice of 18 self-select funds.

During the year the charges for the self-select funds were in a range from 0.19% to 1.23% of the amount invested or, put another way, in a range from £1.90 to £12.30 per £1,000 invested.

The transaction costs borne by members in the self-select funds during the year were in a range from -0.07% to 0.40% of the amount invested or, put another way, in a range from -£0.70 to £4.00 per £1,000 invested.

The table in Appendix 2c details the charges for each self-select fund.

### **Additional Voluntary Contributions (“AVCs”)**

In general, the Scheme offers members in the defined benefit sections the same choice of funds for their AVCs as are available to DC members. A small number of members have legacy AVCs which are invested in the Equitable Life, Aviva and Reassure With Profits Funds.

### **Charges for AVCs**

During the year the charges for the self-select funds were in a range from 0.19% to 1.23% of the amount invested or, put another way, in a range from £1.90 to £12.30 per £1,000 invested. The table in Appendix 2c gives the charges for each AVC fund.

### **Transaction costs for AVCs**

The transaction costs borne by members in the self-select funds during the year were in a range from -0.07% to 0.40% of the amount invested or, put another way, in a range from -£0.70 to £4.00 per £1,000 invested.

The table in Appendix 2c details the transaction costs for each AVC fund.

### **Charges and transaction costs for legacy AVCs**

A small number of members have legacy AVCs which are invested in the Equitable Life, Aviva and Reassure With Profits Funds.

During the Scheme year, Equitable Life policyholders were transferred to Utmost Life on 1 January 2020 following Utmost’s acquisition of Equitable Life. Some members invested in the Equitable Life With Profits Fund received an uplift as part of the transfer. Other members in Equitable Life’s unit linked funds were mapped to equivalent unit linked funds with Utmost. These were both legacy AVC funds: members were not able to select the funds and no new contributions were made.

### **With Profits**

The charges and transaction costs for the Equitable Life With Profits Funds were deducted from the overall fund before bonus rates were set for all policyholders. For the year to 31 December 2019, the administration and investment charges were 1% p.a. as it had been for many years, or put another way, £10 per £1,000 invested. To honour the guaranteed benefit, Equitable Life held back a further 0.5% p.a. of the With Profits Fund each year. Bonuses and guarantees were paid after the deduction of charges. The transaction costs for this fund was 0.04% p.a. for the year to 31 December 2019, or put another way, £0.40 per £1,000 invested.

Members who were invested in Equitable Life’s With-Profits funds are now invested in Utmost’s secure cash fund. The secure cash fund had a charge of 0.5% p.a. (£5.00 per £1,000 invested) and a transaction cost of 0.02% p.a. (£0.20 per £1,000 invested) for the period 1 January 2020 to 5 April 2020.

It should be noted that the implicit costs and charges for the With Profits Fund cover the cost of guarantees and reserving as well as investment management and administration services.

Source: Equitable Life/Utmost

Charges and transaction cost data was not available for the Aviva and Reassure With Profits assets as at the time of writing. This has also been noted in section 8 of this statement which lists missing information and the steps which the Trustee is taking to obtain this.

### **Impact of costs and charges - illustration of charges and transaction costs**

The Trustee have asked the Scheme's adviser to illustrate the impact over time of the costs and charges borne by members. These illustrations show projected fund values in today's money before and after costs and charges for 4 typical members at stages from joining the Scheme up to retirement.

The tables in Appendix 3 to this Statement show these figures for:

- The default arrangement; as well as
- funds from the Scheme's self-select fund range representing funds that have
  - the highest and lowest annual member borne costs
  - the highest and lowest before costs expected return; and
  - the greatest number of members invested

As an example, for a member who joined the 2017 section's default arrangement at age 18, paying the typical contribution rate of 9%, the level of charges and costs seen in the last year would reduce their projected pot value at retirement in today's money from £88,006 to £74,340.

Appendix 3 also provides important notes of the assumptions used in calculating these illustrations. The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs. Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- The assumptions used may differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Are not guaranteed;
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time;
- May not prove to be a good indication of how your own savings might grow; and
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.

## 4. Value for Members

Each year, with the help of their advisers, the Trustee carry out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good Value for Members. Value is not simply about low cost – the Trustee also consider the quality of the services which members pay for.

### Approach

The Trustee adopted the following approach to assessing Value for Members for the last year:

- Services – considered the investment, administration, communication services where members bear or share the costs;
- Outcomes – weighted each service according to its likely impact on outcomes for members at retirement;
- Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons;
- Rating – each service was rated on the following basis:

Definition	Rating
The Trustee considers the Scheme offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes.	Excellent
The Trustee considers the Scheme offers good value for members, providing services at better quality/cost compared with typical options for similar schemes.	Good
The Trustee considers the Scheme offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes.	Average
The Trustee considers the Scheme offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.	Below average
The Trustee considers the Scheme offers poor value for members providing services, within the bottom 20% quality/cost range compared with typical options for similar schemes.	Poor

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

## Results

The Scheme gave Good Value for Members in respect of the services for which members bear or share the costs. The rationale for the rating of each service was in outline:

Service & weighting	Rating	Rationale
Investment 60%	Good	<p>The Trustee notes that 94% of members are in the default Drawdown Lifecycle Strategy. The default Drawdown Lifecycle Strategy is under the 0.75% p.a. charge cap requirement. The strategy ranges from 0.22% p.a. to a maximum of 0.66% p.a. depending on where the member currently sits in the investment glide path. Over a 40-year saving period the average charge is 0.40% p.a. The Trustee note that the average charge is comparable with similarly sized schemes according to its adviser and is comparable with the DWP 2016 charges survey. Transaction costs for members in the default averaged 0.18% p.a.</p> <p>The Trustee provides an Annuity Lifecycle Strategy for those who wish to take an annuity at retirement. The Trustee also provides 18 'Freechoice' funds for the membership to self-select from including property, emerging markets, environmental and Shariah law funds. The Trustee considers that this is a suitable range of Freechoice funds.</p> <p>The performance for the funds relative to their respective benchmarks has been mixed. The performance of the funds has been affected by unprecedented volatility in asset returns due to the impact of the COVID-19 outbreak on markets. The Trustee will continue to monitor the performance, particularly the active managers that have underachieved relative to benchmark primarily due to asset selection and replace funds which are not meeting expectations. There is a possibility of transferring members into a Master Trust arrangement during the coming year and the Trustee has received advice that the funds available in the Master Trust will be suitable for the Scheme's members. The Trustee and its DC investment adviser continues to monitor charges and receives quarterly detailed investment reports that consider performance relative to benchmarks.</p>

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

## Results

Service & weighting	Rating	Rationale
Administration 20%	Good	<p>The Trustee receives regular reports on performance against the agreed service levels. These demonstrate that Aegon, over the 12-month period, achieved 92%, below the target service levels of 95%. Core financial transactions have, mostly, been processed promptly and accurately. The Trustee has noted a number of exceptions over the last year and has met with Aegon to monitor service and consider action plans to address this underperformance. Service levels were impacted in the first half of 2019 following the transition from BlackRock to Aegon which prompted an increase in the number of requests from members. The Trustee notes that service levels have since improved in the latter half of the Scheme's year end and have met the required overall service standards.</p> <p>There is good record keeping and member complaints remain low with 15 complaints in the year to 31 March 2020. Standard and Poor's ('S&amp;P') rating for Aegon is the same as previous years at A-. Administration systems capabilities and controls in place to ensure regulatory compliance are effective and the Trustee considers Aegon to have an experienced administration team.</p>
Communication 20%	Excellent	<p>The Scheme offers a website (including modellers) to members and provides a range of appropriate guides and other relevant information for those building their pension or those nearing retirement. Relevant communications are sent to members at appropriate points in their pension's lifecycle. The Scheme is externally accredited with the Pension Quality Mark Plus demonstrating that Scheme communications are clear and easy to understand. The Trustee member engagement dashboard shows good improvement from the prior year. The survey results are generally positive about member experience and evidence an improving trend from the prior year. 'Online' engagement has increased in the last 12 months with around 32% of total DC members registered as at 31 March 2020 compared with 21% as at 31 March 2019.</p>

The Trustee agreed an action plan for the following year to improve value where necessary and obtain any missing information. This is detailed in the action plan and missing information sections of the Chairs Statement.

## 5. Administration

The Trustee has appointed Aegon to administer the Scheme on its behalf. The Trustee monitored core financial transactions during the year including:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

The Trustee has a service level agreement in place with Aegon, which covers the accuracy and timeliness of all core financial transactions such as:

- The investment of contributions;
- Switching investment options
- Providing quotations of benefits to members who are retiring or leaving the [Scheme];
- Payments of benefits;
- Producing annual benefit statements; and
- Responding to ad hoc enquiries from members.

The Trustee has a service level agreement in place with Aegon covering:

- New joiner and regular contributions files and the allocation of contributions within 1 day;
- Processing of BACS payments in within 2 working days;
- Processing of changes to member personal details within 3 working days;
- Processing individuals transferring out to the Scheme within 5 working days;
- Processing individuals transferring into the Scheme within 5 working days;
- Response to members information requests within 5 working days;
- Provision of statements upon request within 5 working days; and
- Processing of switch requests within 1 working day.

Aegon aims to ensure that, broadly, 95% to 100% of all these processes are completed within these service levels.

The Trustee understands that the administrator monitors its performance against these service levels by:

- Monitoring daily transactions;
- Monitoring daily workflow items;
- Regular internal audits of administration procedures; and
- Reviewing the level, causes and resolution of complaints.

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings have been paid promptly to the Scheme by the Company;
- Receiving quarterly reports from Aegon on the processing of financial transactions and other administration processes against the agreed service levels;
- Considering the reasons for and resolution of any breaches of service standards;
- Arranging reviews and receiving reports on data accuracy. This concluded that common data was present for 95.21% of membership data as at September 2019 - this was 95.26% last year so is broadly unchanged;
- Receiving reports from the Scheme's Auditor, who independently test sample transactions for accuracy and timeliness; and
- Considering member feedback including any complaints and member surveys.

The Trustee is satisfied that the service standards are competitive because:

- The Trustee conducted a review in 2013, when they were found to be competitive with other Administrators.

Overall, the Trustee notes, in general terms, during the year:

- Core financial transactions were generally processed accurately, promptly and efficiently noting the following exceptions;
  - Q3 2019: 2 out of 14 core financial processing tasks were outside SLA (lowest was 86% for change payment details)
  - Q2 2019: 2 out of 13 core financial processing tasks were outside SLA (lowest was 70% for change salary details)
- The wider administration of the Scheme achieved, over the 12-month period, 92% adherence to service standards, slightly below the target service levels of 95%.

The Trustee took the below actions following the above issues with the processing of financial transactions and administration service levels during the year:

- The Trustee monitored this underperformance in its meetings and met with Aegon each quarter to review and consider the required action to improve performance. An action plan has been agreed.
- The in-house pension team also undertook regular operational reviews with Aegon to monitor overall service to members.

## **Coronavirus**

The Covid-19 coronavirus pandemic inevitably affected administration of the Scheme between March and June 2020:

- Aegon arranged for most of its staff to work from home and dealt with increases in staff absences;
- Trading in property funds was suspended because of the difficulty in fairly valuing properties, and

# Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

- There were delays in getting some funds' unit prices because the prices of investments were fluctuating more than normal
- As a result, the processing of core financial transactions was delayed, and it was not possible to meet the usual service levels during this period for reasons outside Aegon's control. Nevertheless, the Trustee is satisfied that Aegon took reasonable steps to ensure key financial transactions took place and services were restored as soon as possible.

## **Security of assets**

- The situation regarding the security of where pension contributions are invested is complex. It can vary from scheme to scheme and from fund to fund within each scheme. To-date there have only been a few instances where members of schemes such as ours have seen their benefits reduced as a result of a financial failure of a provider or fund manager.
- The Trustee carried out a review of the security of members' assets in 2018/19 and will continue to keep this under review in the next 12 months. The Trustee takes the security of assets into account when selecting and monitoring the funds used by the Scheme.

## **6. Trustee knowledge**

The Trustee is required to describe how the knowledge and understanding requirements of sections 247 and 248 of the Pensions Act 2004 have been met during the Scheme year and explain how the combined knowledge and understanding of the Trustees, together with the advice available to them, enables them to properly exercise their functions.

Section 247 and 248 of the Pensions Act 2004 require that each Trustee:

- Is conversant with the Scheme's trust deed and rules, the Scheme's SIP, and any other policy document relating to the Scheme's administration; and
- Has appropriate knowledge and understanding of pensions and trusts law as well as the funding of pension schemes and asset investment principles.

The Trustee Directors' current practices to maintain and develop their level of knowledge and understanding of matters relating to the Scheme (in accordance with sections 247 and 248 of the Pensions Act 2004) are:

- There is an induction process for newly appointed Trustee Directors. This includes a structured 2-day training programme delivered by the in-house pension's team and advisors. New Trustee Directors are also asked to complete the Pensions Regulator's "Trustee Toolkit" within six months of becoming a Trustee Director;
- Ongoing training is provided to ensure that Trustee Directors have a working knowledge of the Scheme's Trust Deed and Rules and Statement of Investment Principles as well as the investment concepts and principles relevant to the Scheme, policy documents in relation to administration of the Scheme and the law and legislation relating to pension schemes and trusts;

## Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

- Trustee Directors are encouraged to undertake further study and qualifications which support their work;
- The Trustee Directors have a plan in place for ongoing training appropriate to their duties;
- The effectiveness of these practices and the training received are reviewed annually;
- The Trustee Directors carry out regular assessments through the Trustee effectiveness review process to confirm and identify any gaps in their knowledge and skills. The Trustee Education days in July and December are structured to fill any gaps identified; and
- The Trustee also receives quarterly “hot topics” from its adviser covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.
- There are three Trustee Directors who are required to complete their own CPD of 25 hours per year.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's DC advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee has two dedicated training days in each year in which cover a number of topics.

The Trustee Directors received the following training during the last year:

<b>Date</b>	<b>Topic</b>	<b>Aim/benefit</b>	<b>Trainer</b>
10 July 2019	Legal Update	To enhance Trustee Directors' knowledge of the current legislative and Scheme requirements. This benefits members by ensuring that Trustee Directors understand best practice and can effectively monitor the Scheme	Travers Smith
10 July 2019	DC Investment	To provide Trustee Directors with an update on latest developments in DC Investments including Ethical, Social and Governance investing. This benefits members by ensuring that Trustee Directors understand the latest requirements and developments.	Hymans Robertson
10 July 2019	Member Engagement	To enhance Trustee Directors' knowledge of the latest thinking in member engagement around nudge communications and use of technology. This benefits members by ensuring that Trustee Directors understand the latest developments and can develop plans to enhance member engagement in the Scheme.	Aegon / Nudge
10 July 2019	Mid Term review of Trustee Governance Structure	To provide the opportunity for the Trustee Board to consider best practice, requirements and reflect on the effectiveness of the Trustee Structure. This benefits members by ensuring that Trustee Directors understand best practice and can effectively monitor the Scheme.	AXA
10 July 2019	Actuarial Update	To enhance Trustee Directors' knowledge on a range of actuarial matters including longevity. This benefits members by ensuring that Trustee Directors have an up-to-date understanding of trends, issues and challenges that the Trustee Directors will need to consider.	Willis Towers Watson

Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

Date	Topic	Aim/benefit	Trainer
19 December 2019	DC Update	To provide Trustee Directors with an update on latest PLSA retirement standards and an overview of the DC Scheme's Guided Outcomes assessment results. This benefits members by ensuring that Trustee Directors understand how likely the membership are to achieve a good retirement outcome and enable actions to be considered to improve outcomes for all members.	Hymans Robertson
19 December 2019	Governance - Cyber security	To enhance Trustee Directors' knowledge of the current legislative requirements, best practice and trends around Cyber Security. This benefits members by ensuring that Trustee Directors have an up-to-date understanding of trends, issues and challenges..	Zephyrus Partners
19 December 2019	Governance – making good decisions	To develop a better awareness round how to make and monitor decisions both individually and as a group. This benefits members by ensuring that Trustee Directors are aware of key decision-making biases and challenges along with practical steps that it can adopt to make its decision making even more effective.	Reddington
19 December 2019	Actuarial Update	To enhance Trustee Directors' knowledge on a range of actuarial matters including the New Funding Code Highlights and Retail Price Index / Consumer Price Index considerations. This benefits members by ensuring that Trustee Directors have an up-to-date understanding of issues and challenges that the Trustee Directors will need to consider.	Willis Towers Watson
19 December 2019	Governance - Trustee Board make up and Diversity and Inclusion (D&I)	To provide the opportunity for the Trustee Directors to consider D & I matters and the Trustee Board make up. This benefits members by ensuring that Trustee Directors have an up-to-date understanding of issues, trends and challenges that the Trustee Directors will need to consider from a D&I perspective.	Travers Smith
19 December 2019	Trustee self-assessment feedback	To provide the opportunity for the Trustee to consider the results of the annual Board effectiveness review. This included an update on the role of independent Trustees and Lay Trustees. This benefits members by ensuring that Trustee Directors reflect on the overall performance and effectiveness of the Trustee Board, its external advisors and consider actions or any training requirements.	AXA
5 March 2020	The potential impact of Coronavirus on Pension Schemes	To enhance Trustee Directors' knowledge of the current issues, trends and potential impact on pension schemes given the Coronavirus pandemic. This benefits members by ensuring that Trustee Directors have an up-to-date understanding of trends, issues and challenges that the Trustee Directors will need to consider.	Hymans Robertson

## Annual statement by the Chair of the Trustee Board for the year to 31 March 2020

All the Trustee Directors have access to copies of and are familiar with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and Statement of Investment Principles (“SIP”). The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme’s investments.

All the Trustee Directors have completed the Pensions Regulator’s Trustee Toolkit (the Trustee Toolkit is a free online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law). A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. The Scheme has a structured induction process for new Trustee Directors. This includes a structured 2-day training programme delivered by the in-house pension’s team and advisers. New Trustee Directors are also asked to complete the Pensions Regulator’s “Trustee Toolkit” within six months of becoming a Trustee Director;

The Trustee Directors test their familiarity with the Scheme’s documentation, pensions Law/Regulations and the Pensions Regulator’s DC Code of Practice 13 and supporting Guides using the Regulator’s self-assessment template. Further, to ensure that the Trustee is compliant with its duties it reviews the DC performance on a quarterly basis with its legal and investment advisers as part of its DC committee meetings with the full Trustee Board receiving an update at its meetings.

The Trustee has appointed suitably qualified and experienced legal advisers and investment consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee reviews the effectiveness of its advisers annually and also periodically reviews the appointment of its advisers. The Trustee undertook the following reviews during the last year:

- An annual Trustee effectiveness evaluation was carried out in the year to 31 March 2020. A questionnaire was issued to all Trustee Directors for completion and the results then analysed. This was presented to and discussed as part of the Trustee Education day on 19 December 2019 with actions considered. The annual evaluation considered;
  - the performance and effectiveness of the Trustee Board, considering objectives, meeting effectiveness, Trustee Director contribution and information accessibility;
  - the performance of external advisors in terms of clear and timely advice; and
  - A training, knowledge and skills assessment.

As a result of the training regime in place, the induction and other ongoing arrangements, the advice, support and resource available to the Trustee Directors and the reviews undertaken, the Trustee is satisfied that during the last year it has:

- Taken effective steps to maintain and develop the Trustee Directors’ knowledge and understanding; and
- Ensured the Trustee has suitable advice available to them.

Therefore, the Trustee is satisfied that the combination of its knowledge and understanding together with access to suitable advice enabled them to properly exercise its duties during period covered by this Statement.

## 7. Feedback

The Trustee is keen to encourage feedback from members on the running of the Scheme including topics such as investment, administration services and communications.

Aegon has set up a website (<https://lwp.aegon.co.uk/targetplan/>) specifically for our members where you can find information on how your savings are building up and your investment options. If you need more information, please visit <http://pensions.axa-employeebenefits.co.uk/> and if you have any comments or questions please contact the Scheme's administrator on 0345 603 4048 or by email [axapensionsadmin@aegon.co.uk](mailto:axapensionsadmin@aegon.co.uk).

## 8. Our plans for the next year

In the coming year (which will be covered by the next Statement), the Trustee intends to carry out the following:

- Communicate a summary of the results of this assessment in the Chair's Statement; which will be posted on-line;
- Assist the Company with moving the DC membership to a Master Trust arrangement to enhance value through lower charges, access to better quality communications and retirement support for members;
- Update the Statement of Investment Principles ("SIP") to reflect the 2019 Regulations on Responsible Investment which come into force on 1 October 2020;
- Complete their first Statement describing how they have followed the policies in the Scheme's Statement of Investment Principles over the Plan year;
- Continue to monitor administration performance levels each quarter and to review and consider any required action to ensure that any missing information is obtained; and
- Undertake a mid-year review to monitor value for members progress and further embed value into the Scheme's governance.

## Missing information and limitations

The Trustee has requested full information from providers but to date has been unable to obtain full information on all areas, including:

- The Trustee requested information on transaction costs from Aegon for all funds for the 12-month period to 31 March 2020. Transaction costs data has been supplied by the underlying managers for the calendar year to 31 December 2019 only.

This means that some information is missing and some information is outside the 12-month scheme year period covered by this statement. For the purposes of this statement (including the requirement for the Trustee to calculate, so far as they are able to do so, transaction costs and to assess the extent to which those costs represent good value to members), the transaction costs stated are for the 12 months period supplied by providers (as referred to immediately above), without adjustment.

- The Trustee requested information on investment management charges and transaction costs regarding legacy AVC assets Aviva and Reassure. At the time of writing this information wasn't available.

The following steps are being taken to obtain the missing information for the future:

- The Trustee will continue to seek the relevant missing information from providers, by making another request before the next year end; and
- The Trustee will continue to monitor the provider's and fund managers' progress on implementing the FCA rules on transaction cost disclosure with a view to providing this information next year.

The Trustee also notes the following limitations:

- The Trustee acknowledges that at this point, limited data is available on industry-wide comparisons and has relied heavily on the market knowledge of its advisers; and
- There is limited transaction costs data available to provide industry-wide comparisons.

The Trustee understands that these issues currently affect many pension schemes and pension providers and that, the amount of comparative information available should improve over the next few years.

# Statement of Investment Principles (SIP) – Defined Contribution (DC) Section – September 2020

## Introduction

The law requires the Trustee to produce formal “Statement of Investment Principles” for the Scheme’s default arrangement and its other investment options. These Statements set out what the Trustee aims to achieve with the investment options and their investment policies which guide how members’ money is invested.

This document is a compendium of the Statements of Investment Principles for the AXA UK Group Pension Scheme DC Section (the “Scheme”). These Statements must cover a number of technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme’s Auditors which, as far as possible, are shown separately in “for the record” boxes.

The Trustee will publish the Statements of Investment Principles online.

## Statements of Investment Principles

The Trustee’s Statements of Investment Principles for the DC Section contained in this document include the:

1. Statement of the aims and objectives for the default arrangement\*;
2. Statement of the aims and objectives for investment options outside the default arrangement\*; and
3. Statement of investment beliefs, risks and policies\*\*.

The Statement of Investment Principles for the DC Section of the Scheme\*\* comprises items 1, 2 and 3. The Statement of Investment Principles for the Scheme’s default arrangement\*\*\* comprises items 1 and 3.

## Appendices

- A. Investment implementation for the default arrangement;
- B. Investment implementation for the investment options outside the default arrangement;
- C. Summary of the approach to investment governance; and
- D. Summary of the Scheme’s service providers.

### **For the record**

\* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

\*\* In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

\*\*\* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee has taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles. These Statements will be reviewed at least every three years or more frequently as required by the Regulations.

# Statement of Investment Principles

## 1. Statement of the aims and objectives for the default arrangement

### **Reasons for the Default Arrangement**

The Trustee has decided that the Scheme should have a default investment arrangement because:

- The Scheme is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement;
- It should be easy to become a member of the Scheme and start building retirement benefits without the need to make any investment decisions; and
- A majority of the Scheme's members are expected to have broadly similar investment needs.

### **Choosing the default arrangement**

The Trustee believes that understanding the Scheme's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members.

The Trustee has taken into account a number of aspects of the Scheme's membership including:

- The members' age and salary profile;
- Members' projected personal account sizes at retirement;
- Contribution levels; and
- The likely return on investment, after the deduction of charges payable on the funds, used by the Scheme's default strategy - the Drawdown Lifecycle Strategy.

### **Objectives for the default arrangement**

The main objective of the default arrangement is to provide good member outcomes at retirement. The Trustee also believes that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members face during their membership of the Scheme;
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for the majority of members who do not make investment choices;
- Enables investments to be readily realisable subject to market conditions;
- Considers Environmental, Social and Governance (ESG) issues; and
- Reflects members' likely benefit choices at retirement.

### **The default arrangement**

The default arrangement is therefore a "lifestyle strategy", which:

- Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Targets members who are expected to use Flexible Access Income Drawdown during their retirement.

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for the default arrangement. The expected investment returns, approach to managing investment risks including financially material considerations such as climate change and details of the Trustee's policies in relation to its investments and its arrangements with assets managers are described in Section 3. Full details of the current default arrangement are given in the document in Appendix A "Investment implementation for the default arrangement".

# Statement of Investment Principles

## 2. Statement of the aims and objectives for investment options outside the default arrangement

### Reasons for the investment options

In addition to the default arrangement, the Scheme offers members a choice of investment options because:

- While the default arrangement is intended to meet the needs of a majority of the Scheme's members, it may not meet the needs of all members. Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

### Choosing the investment options

#### Membership analysis

The Trustee believes that understanding the Scheme's membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

- The members' age and salary profile.
- The likely sizes of members' pension funds at retirement;
- The degree to which members are likely to take an interest in where their contributions are invested; and
- The number of members who are likely to want responsible, ethical or faith-based investment.

#### Costs of investment options

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

### Objectives for the investment options

The Scheme offers members a choice of investment options as an alternative to the default arrangement.

#### Alternative lifestyle options

The main objective of the alternative "lifestyle option", the Annuity Lifecycle Strategy, is to give good member outcomes.

The Trustee believes that it is in the best interests of members in the alternative lifestyle option to:

- Manage the principal investment risks members' face during their membership of the Scheme;
- Maximise investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for members who do not otherwise make investment choices; and
- Give further choice for members who feel that the Scheme's default arrangement is not appropriate to their needs, but do not otherwise want to be involved in deciding where their contributions are invested.

The alternative lifestyle option gives members a choice compared to the default arrangement of:

- Slightly lower levels of investment risk and expected return; and
- Targeting buying an annuity at retirement.

# Statement of Investment Principles

## 2. Statement of the aims and objectives for investment options outside the default arrangement (continued)

### Self-select / Freechoice funds

The objectives of the self-select fund range, also known as the 'Freechoice' fund range, are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension funds are invested;
- Complement the objectives of the Default Arrangement and the alternative lifestyle option;
- Provide a broader choice of levels of investment risk and return;
- Provide a broader choice of investment approaches including responsible investing, ethical and faith-based funds;
- Help members more closely tailor how their pension funds are invested to their personal needs and attitude to risk;
- Help members more closely tailor how their pension funds are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

### Risk and return

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for these investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 3.

Full details of the current investment options are provided in the documents "Investment implementation for investment options outside the default arrangement" and "Investment implementation for the default arrangement".

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies

### Introduction

This Statement sets out the investment beliefs and policies which guide the Trustee's decision making.

#### **FOR THE RECORD**

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

This Statement of investment beliefs has been prepared in accordance with the Occupational Pension Scheme (Investment) Regulations 2005.

### Risks

#### **Principal investment risks**

The Trustee believes that the three principal investment risks most members will face are:

- 1) Inflation risk** – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by funds investing in equities and other growth orientated assets which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

- 2) Benefit conversion risk** – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

- 3) Volatility/Market risk** – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### Other investment risks

The Trustee believes that other investment risks members may face include:

**Active management risk** – a fund manager’s selection of holdings may not lead to investment returns in line with the fund’s objectives and investment markets generally.

**Currency risk** – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

**Interest rate risk** – the value of funds which invest in bonds will be affected by changes in interest rates.

**Default risk** – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

**Liquidity risk** – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

**Counterparty risk** – the financial institutions holding a fund’s assets may get into financial difficulties leading to a reduction in a fund’s value.

**Market risks** - Shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term

This can include short-term changes in the normally expected correlations of the behaviour of risks and returns seen between different asset classes, when standard approaches to mitigating risks such as diversification are temporarily ineffective.

**Factor based investing** – equity investments may show several factors (supported by academic research) that may be expected to deliver stronger returns over the longer-term, but which may show increased risks (including timing) in the shorter-term.

**Environmental, Social and Governance (ESG) risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. **Climate risk** - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

**Legislative/Regulatory** - Changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country’s economy or one country relative to its neighbours over the medium to longer-term. Changes in Regulations can also affect the operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter-term.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### Measuring risks

The Trustee has developed and maintain a framework for measuring the investment risks. This has two components:

- Quarterly monitoring of the investment funds covering short and medium-term performance attribution.
- Periodic reviews of the investment strategy.

### Managing risks

The Trustee has developed and maintain a framework for assessing the impact of all investment risks on long-term investment returns.

### Principal investment risks

The lifestyle options manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.

The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of the majority of members.

### Other investment risks

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Scheme.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

At this time, the Trustee has not made explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making. The Trustee does discuss the potential impact of climate risks with its adviser and managers on a periodic basis and will monitor developments in this area. In relation to its investment strategy, the Trustee monitors other risks which it believes to be financially material including economic risk, market risk and regulatory risk on a regular basis and discusses issues relating to these risks with its adviser and managers on a periodic basis. The Trustee monitors governance risk and will report on the managers' practices in their annual Implementation Statement.

### Time Horizon

The Trustee monitors the age profile of the Scheme's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks. The Scheme is open to new entrants and as a result, investment risks need to be considered over the duration of their time with the Scheme.

## Statement of Investment Principles

### 3. Statement of investment beliefs, risks and policies (continued)

#### Financially material considerations

The Trustee recognises that the consideration of financially material considerations, including ESG factors, climate risk, economic risk, market risk and regulatory risk are relevant to the development, selection and monitoring of the Scheme's investment options.

#### Implementation

The Scheme uses standard pooled funds offered by investment platform providers and fund managers. This gives access to a range of funds while keeping down costs to members but means that the Trustee cannot adopt an approach to managing financially material considerations specific to the Scheme. The Trustee nevertheless seek to manage financially material considerations to protect long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes;
- For actively managed funds (where the fund manager decides where to invest), expect the fund managers to take financially material considerations into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustee believes will deliver appropriate risk adjusted returns.
- For all funds, the Trustee expects fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and
- Preferring fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

#### Expected returns on investments

The Trustee believes that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account).

Asset class	Expected long-term investment returns relative to inflation	Expected shorter-term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts)	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

## Statement of Investment Principles

### 3. Statement of investment beliefs, risks and policies (continued)

**Long- Dated Bonds** (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

**Multi-asset funds** (i.e. investing in a varying mix of asset classes) - should deliver positive returns relative to inflation over the longer-term, with lower short-term volatility than equities.

**Derivatives** (e.g. currency hedging) - typically to reduce shorter-term investment risks or to facilitate changing where funds are invested, should help achieve a fund's expected levels of risk and return.

**Market beta** (i.e. funds investing in assets with certain characteristics) – the strategy of these funds is intended to give a better return over the long-term than the broader market for the type of assets involved (e.g. equities).

**Illiquid assets** (e.g. infrastructure, forestry, private equity and private debt) – seek to deliver better risk adjusted returns over the long or very long term compared to similar and more liquid assets, but may give poor returns if they are sold in the short to medium term.

**Commodities** – are often speculative investments where values are sensitive to demand, but may provide a degree of inflation-proofing and diversification.

#### Investment beliefs

The Trustee's investment decisions are made in the context of its investment beliefs that:

- Members are in general long-term investors (who plan for future outcomes which are 10 or more years in the future);
- Managing the principal investment risks is the most important driver of good long-term member outcomes;
- As the Scheme invests for members over the long-term, financially material considerations including the impact of climate change will have a bearing on funds' expected levels of risk and return;
- Investment markets may not always behave in line with long-term expectations during the shorter-term;
- Taking investment risk is usually rewarded in the long term;
- Investment risks can be reduced by spreading investments both within and across asset classes;
- Actively managed funds, where the manager chooses where to invest, may not always deliver the expected investment returns in the shorter-term;
- Passively managed funds, whose returns are intended to track a market index, may produce investment returns more efficiently than actively managed funds in some markets;
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net returns.
- As the Scheme invests for the long-term, ESG factors will have a bearing on the funds' expected levels of risk and return;
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net return;
- ESG issues will be financially material to risk-adjusted returns over the long term;
- Climate change is a material financial risk, particularly to younger members; and
- Active stewardship can support positive engagement with members.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### Types of funds used

#### **Delegation of investment decisions**

The Scheme uses funds provided through an investment platform. This investment platform in turn invests its funds in funds provided by a selection of fund managers where investments are pooled with other investors. This enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner. It means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the fund managers.

#### **Selection of Funds**

The Trustee will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.

The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the provider's platform. While the Trustee will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Scheme's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Scheme and its members.

The Trustee will seek to engage with the platform provider to obtain funds which meet the Trustee's investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangement. The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### Manager Incentives

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members.

Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives.

For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will act should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator the Trustee will periodically review the Scheme's choice of provider to ensure their charges and services remain competitive. The Trustee believes that this is one of the most effective ways of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options at which time the suitability of the Scheme's investment management arrangements are also considered.

The Trustee monitors the investment managers against a series of metrics on a quarterly basis over a long-term time horizon including:

- Performance of their funds' respective benchmarks/targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### **Portfolio Turnover**

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager.

When selecting actively managed funds, the Trustee will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider or investment managers on the platform to report on a periodic basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

### **Portfolio Duration**

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon.

The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

### **Security of assets**

The funds are provided through a policy of insurance issued to the Trustee by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through reinsurance agreements and unit purchase agreements. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

## Statement of Investment Principles

### 3. Statement of investment beliefs, risks and policies (continued)

#### **Realisation of investments**

The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund.

Nevertheless, the Trustee recognises that most members' pension funds have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

#### **Creation of alternative / inadvertent/ temporary default arrangements**

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. The platform provider is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

In some circumstances this may result in monies being invested in or transferred to an alternative fund without a member's consent (such as fund suspensions) which may result in funds other than the default option being deemed as "default" investment arrangements for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015. A default arrangement is protected by the charge cap so that member charges for that arrangement do not exceed 0.75% p.a. Where a fund becomes a "default arrangement" for these purposes, the Trustee will apply the principles set out in this SIP in respect of the default option to the extent they are relevant to the fund. Further details are out in Appendix 1 in respect of any funds which have become "default arrangement" for these purposes.

#### **Balance of investments**

The Trustee reviews the nature of the Scheme's investment options on a regular basis, with particular reference to suitability and diversification. The Trustee considers written advice from a suitably qualified person when determining the appropriateness of each investment manager and fund for the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

Overall, the Trustee believes that the Scheme's investment options:

- Provide a balance of investments; and
- Are appropriate for managing the risks typically faced by members.

This is because the investment options cover a wide range of asset types with different expected risk and return characteristics, including:

- Assets with high expected long-term growth and high expected volatility (such as equities);
- Assets which are actively managed which have the potential to outperform their benchmarks, but may also underperform;
- Assets which are inflation-linked (such as inflation-linked bonds);
- Assets which have low expected long-term growth and low expected volatility (such as cash).

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### **Consideration of financially material factors in investment arrangements**

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors and climate risk, is relevant in both the strategic development and implementation of the investment arrangements. The Trustee further recognises that the financial materiality of any factor, including ESG factors and climate risk, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers. The Trustee will develop and maintain a framework for assessing the impact of all investment risks on long-term investment returns. As part of this, the Trustee monitors the age profile of the Scheme's membership to arrive at an appropriate investment time horizon.

### **Consideration of non-financially material factors in investment arrangements**

The Trustee recognises that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

While the Trustee will bear members' views in mind when reviewing the suitability of the Scheme's investment options and choice of funds used, the Trustee will not be bound by the members' views (for instance where it is uneconomic or impracticable to do so).

Furthermore, the Trustee notes that a large majority of members have not made active investment choices and so the Trustee believes that most members are unlikely to have strong views on where their savings are invested.

The Trustee has not imposed any restrictions or exclusions to the default investment arrangements based on non-financially material factors. The Trustee does however make available an ethical equity fund and a Sharia Law equity fund within the self-select range for members who are likely to hold stronger views in these areas than the majority of members. These funds take into account non-financial factors into the investment process and can be used by any member.

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under- or out-perform other funds with broader-based investment approaches.

**Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.**

### **Stewardship**

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

### **Members' financial interests**

The Trustee expects that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

# Statement of Investment Principles

## 3. Statement of investment beliefs, risks and policies (continued)

### Conflicts of interest

When appointing or monitoring platform providers and investment managers' funds on the provider's platform, the Trustee will seek independent advice from the Scheme's investment consultants. In addition, the Trustee expects that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest to the Trustee.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

### Voting and engagement

The Trustee believes that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

The Scheme invests via an investment platform provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider and determined that these policies are appropriate. On an annual basis, the Trustee will request that the investment platform provider and fund managers provide details of any change in their house policy and notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement.

Where appropriate, the Trustee will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but actively encourages the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies and other investors, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

The Trustee expects the investment platform providers to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustee also expects the platform provider to be able to evidence their own governance practices on request.

## Statement of Investment Principles

### 3. Statement of investment beliefs, risks and policies (continued)

#### **Monitoring**

The Trustee receives an independent investment performance monitoring report on a quarterly basis. The Trustee will review the performance of the appointed investment manager from time to time, based on the results of their performance, compared to their stated performance objectives, and investment process.

The Trustee periodically monitor the suitability the Drawdown Lifecycle Strategy and Annuity Lifecycle Strategy's objectives, and the performance of the Drawdown Lifecycle Strategy and Annuity Lifecycle Strategy against their objectives.

The Trustee expects the platform provider to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and to report on these issues.

The Trustee monitors the voting activity of key funds used within the default strategy on a quarterly basis. The Trustee also periodically engages with the fund managers at update meetings. If the Trustee deems it appropriate, any issues of concern will be raised with the manager for further explanation. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustee aims to meet with all major fund managers on an annual basis. The Trustee will provide the fund managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues.

The charges for the investment options (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee to ensure that they represent "value for money" relative to the investment objectives of each fund.

The default option's compliance with the charge cap is monitored on a regular basis.

The Trustee recognises that transaction costs (both on the investment management of the funds underlying portfolio of assets and the "spread" upon buying or selling the funds) will impact the investment returns experienced by members.

The Trustee monitors the funds' transaction costs to ensure that they are reasonable and appropriate.

The Trustee periodically monitors the process whereby contributions in respect of members are invested in and disinvested from the Scheme's investment options.

#### **Securing compliance with Section 36, Pensions Act 1995**

The Trustee is required to meet the requirements of section 36 (and the relevant underlying regulations). This covers a wide range of duties regarding investing in members' best interests, the selection of investments, the management of investments, delegation and seeking advice. The Trustee acknowledges these requirements and has a policy of regularly engaging with its professional advisers on all significant issues relating to investment. In addition, the Trustee Board includes professional trustees which are expected to have a higher level of knowledge of these requirements compared to lay trustees.

## Statement of Investment Principles

### 3. Statement of investment beliefs, risks and policies (continued)

#### **FOR THE RECORD**

The Trustee obtains and considers proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustee to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds used at each stage of the default arrangement and the alternative lifestyle option are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

In relation to the default arrangement, in order to invest in a way which aligns with members' best interests the Trustee aims to achieve the objectives set out in the 'objectives for the default arrangement' section of this document.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares);
- Fixed interest and index-linked bonds issued by governments and companies;
- Cash and other short-term interest bearing deposits;
- Commercial and residential property;
- Illiquid assets including infrastructure, forestry, private equity and private debt;
- Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European "UCITS IV" and the FCA's "Non-UCITS" regulations have to meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustee considers that these types of investments are suitable for the Scheme. The Trustee is satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

# Statement of Investment Principles

## Appendix A

### Investment Implementation for the default arrangement

#### Default arrangement

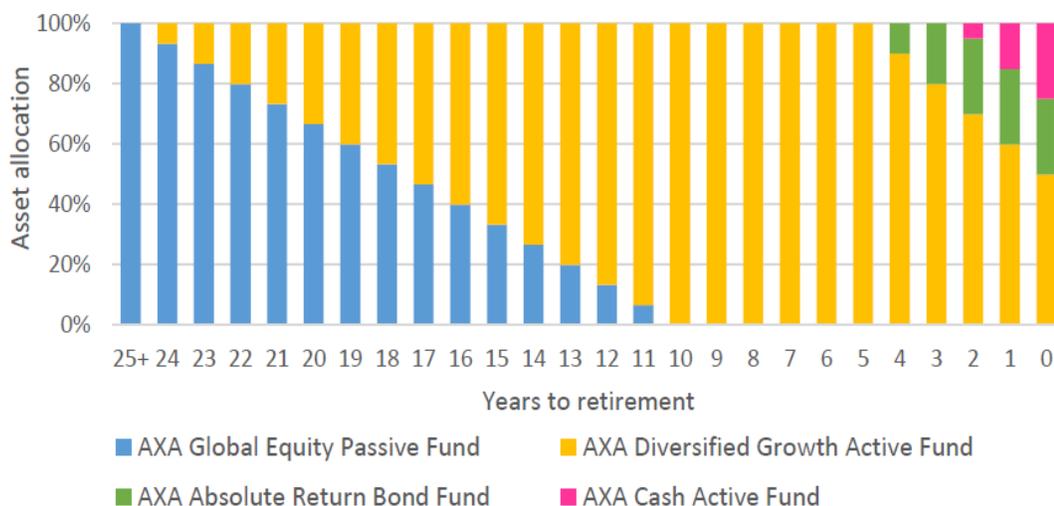
The default arrangement is a lifestyle strategy which targets flexible income drawdown at retirement.

Members are invested in funds expected to give higher returns relative to inflation up to 25 years before their normal retirement date.

Members are gradually switched into funds which are expected to give good returns relative to inflation while consolidating past investment gains between 25 and 10 years before their normal retirement date.

Finally, members are automatically switched into funds aligned to their expected benefit choices at retirement during the last 5 years up to their normal retirement date.

#### Asset allocation for the default drawdown lifecycle



# Statement of Investment Principles

## Fund Allocation

The allocation to each fund in the default arrangement at yearly intervals up to a member's normal retirement date is:

Years to retirement	Global Equity Passive Fund %	Diversified Growth Active Fund %	Absolute Return Bond Fund %	Cash Active Fund %
25 or more	100	0	0	0
24	93	7	0	0
23	87	13	0	0
22	80	20	0	0
21	73	27	0	0
20	67	33	0	0
19	60	40	0	0
18	53	47	0	0
17	47	53	0	0
16	40	60	0	0
15	33	67	0	0
14	27	73	0	0
13	20	80	0	0
12	13	87	0	0
11	7	93	0	0
10	0	100	0	0
9	0	100	0	0
8	0	100	0	0
7	0	100	0	0
6	0	100	0	0
5	0	100	0	0
4	0	90	10	0
3	0	80	20	0
2	0	70	25	5
1	0	60	25	15
0	0	50	25	25

Rebalancing between these funds takes place on a quarterly basis.

# Statement of Investment Principles

## Funds and charges

The funds used by the default arrangement and their charges (expressed as a percentage annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50% Schroder Dynamic Multi-Asset Fund (DMAF)	0.48	0.66
AXA Absolute Return Bond	Kames Absolute Return Bond Fund	0.33	0.51
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

Members in the default option will see TERs range from 0.22% to 0.66%.

## Inadvertent default option

In March 2020, the trading in the Property Fund was suspended, and contributions which would have been invested in this fund were redirected to the Cash Fund. The funds and charges (as at 31 March 2020) used by the inadvertent default options are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

## Investment costs

### Fund charges

The investment platform provider’s and fund managers’ charges for the investment options are borne by the members.

The Scheme is a “qualifying scheme” for auto-enrolment purposes, which means that the Default Option is subject to the charge cap introduced by the government from April 2015.

### Transaction costs

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds’ unit prices and members’ fund values.

### Review

The present default arrangement was introduced on 19/02/2015. Details on the review of this arrangement are set out in the annual ‘Chair’s Statement’ from the Chair of the Trustee.

# Statement of Investment Principles

## Appendix B

### Investment implementation for investment options outside the default arrangement

#### Lifestyle option

The Scheme offers members a choice of alternative lifestyle option, Annuity Lifecycle Strategy, as an alternative to the default arrangement.

#### Objective

The default arrangement's lifestyle strategy, the Drawdown Lifecycle Strategy, targets flexible income drawdown at retirement with an intermediate overall level of expected investment risk and the alternative lifestyle option, the Annuity Lifecycle Strategy, target annuity purchase at retirement with a similar, but slightly lower overall level of expected investment risk.

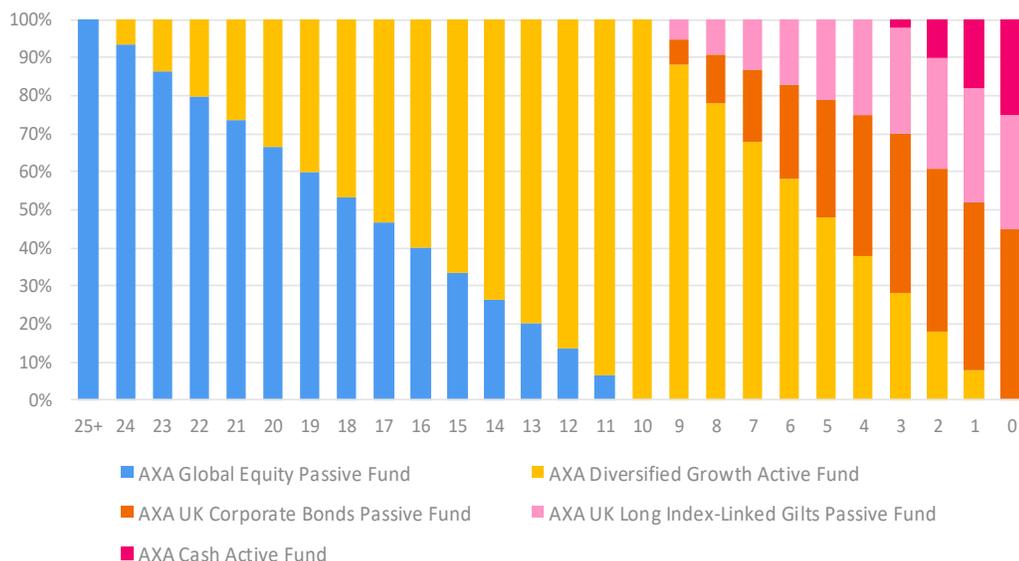
#### Approach

Members are invested in funds expected to give higher returns relative to inflation up to 25 years before their normal retirement date.

Members are gradually switched into funds which are expected to give good returns relative to inflation while consolidating past investment gains between 25 and 10 years before their normal retirement date.

Finally, members are automatically switched into funds that align to their expected retirement choices during the last 10 years up to their normal retirement date.

Asset Allocation for the Annuity Lifecycle Strategy



# Statement of Investment Principles

## Fund Allocation

The allocation to each fund in the Annuity Lifecycle Strategy at yearly intervals up to a member's normal retirement date are:

Years to retirement	Global Equity Passive Fund %	Diversified Growth Active Fund %	UK Corporate Bonds Passive Fund %	UK Long Gilts Passive Fund %	Cash Active Fund %
25 or more	100	0	0	0	0
24	94	7	0	0	0
23	87	14	0	0	0
22	80	20	0	0	0
21	74	27	0	0	0
20	67	34	0	0	0
19	60	40	0	0	0
18	54	47	0	0	0
17	47	54	0	0	0
16	40	60	0	0	0
15	34	67	0	0	0
14	27	74	0	0	0
13	20	80	0	0	0
12	14	87	0	0	0
11	7	94	0	0	0
10	0	100	0	0	0
9	0	88	7	5	0
8	0	78	13	9	0
7	0	68	19	13	0
6	0	58	25	17	0
5	0	48	31	21	0
4	0	38	37	25	0
3	0	28	42	28	2
2	0	18	43	29	10
1	0	8	44	30	18
0	0	0	45	30	25

Rebalancing between these funds takes place on a quarterly basis.

## Statement of Investment Principles

### Funds and Charges

The funds used by the alternative lifestyle option, the Annuity Lifecycle Strategy, and their charges (expressed as a percentage [annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50%	0.48	0.66
AXA UK Corporate Bonds Passive	BlackRock Corporate Bond All Stocks Index Fund	0.02	0.20
AXA UK Long Gilts Passive	BlackRock Over 15 Year UK Gilt Index Fund	0.01	0.19
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

Members in the Annuity Lifecycle Strategy will see TERs at a point in time in the range from 0.19% to 0.66%.

### Self-select fund range

The Scheme offers members a choice of 18 self-select funds options as an alternative to the default option and alternative lifestyle option.

### Fund range

The choice of self-select funds and their charges (expressed as a percentage annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50%	0.48	0.66
AXA Absolute Return Bond	Kames Absolute Return Bond Fund	0.33	0.51
AXA UK Equity Passive	BlackRock UK Equity Index Fund	0.01	0.19
AXA UK Corporate Bonds Passive	BlackRock Corporate Bond All Stocks Index Fund	0.02	0.20
AXA UK Long Gilts Passive	BlackRock Over 15 Year UK Gilt Index Fund	0.01	0.19
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18
AXA UK Equity Active	Artemis UK Special Situations Fund	0.77	0.95
AXA Global Equity Active	MFS Global Equity Fund	0.65	0.83
AXA Overseas Equity Passive	BlackRock World ex-UK Equity Index Tracker Fund	0.01	0.19
AXA SRI	LGIM Ethical Global Equity Index Fund	0.30	0.48
AXA UK Long Index-Linked Gilts Passive	BlackRock Over 5 Years Index Gilt Fund	0.01	0.19
AXA Shariah Law Passive	HSBC Amanah Global Equity Index Fund	0.30	0.48
AXA Emerging Markets	JP Morgan All-Emerging Markets Equity Fund	0.85	1.03
AXA Property	BlackRock DC Property Fund	0.80	0.98
AXA Zone – AXA UK Select Opportunities	AXA Framlington UK Select Opportunities Fund	0.84	1.02
AXA Zone – Architas Passive Moderate	Architas Passive Moderate Fund	0.46	0.64
AXA Zone – Architas Diversified Real Assets	Architas Diversified Real Assets Fund	1.11	1.29

# Statement of Investment Principles

## **Use of options**

Members can contribute to the alternative lifestyle option and self-select funds at the same time.

## **Investment costs**

The investment platform provider's and fund managers' charges for the investment options are borne by the members.

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values and are borne by members.

## **Review**

The current alternative lifestyle option and self-select fund range were introduced on 19/02/2015 with additions made in Q4 2015 (introduction of AXA Zone – AXA UK Select Opportunities and AXA Zone – Architas Passive Moderate) and Q4 2016 (introduction of AXA Zone – Architas Diversified Real Assets Fund).

## **Legacy investment options**

### **Additional Voluntary Contributions (“AVCs”)**

In general, the Scheme offers members in the defined benefit sections the same choice of funds for their AVCs as are available to DC members. A small number of members have legacy AVCs which are invested in the Equitable Life With Profits Fund.

# Statement of Investment Principles

## Appendix C

### Summary of the Scheme's service providers.

#### **For the record**

The Trustee's approach to investment governance complies with the provisions of the Scheme's Trust Deed and Rules as well as legislative requirements.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

#### **Exercising the Trustee's Powers**

The Trustee will always act in the best interests of the members.

The Trustee has delegated day-to-day work on the Scheme's administration and investments. The current service providers to the Scheme together with how they are paid is set out in Appendix D.

#### **Conflicts of Interest**

In the event of a conflict of interests, the Trustee will ensure that contributions are invested in the sole interests of members and beneficiaries.

#### **Monitoring**

The Trustee regularly monitors and reviews:

**Investment Performance** - The performance of the funds in which the Scheme invests against both the funds' stated performance objectives and the investment objectives of the Scheme.

This will also include monitoring the levels of portfolio turnover in the event that significant under or out-performance occurs.

**Value for members** - The member borne charges for the default option against the charge cap for auto-enrolment purposes and the funds' charges and transaction costs to ensure that they represent value for members.

**Suitability** - The suitability of the default option and investment options outside the default arrangement at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership.

**The Statement of Investment Principles** - at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership. The Trustees will consult the Employer on any changes.

#### **Compliance with Statement of Investment Principles**

The Trustee will monitor compliance with the Statement of Investment Principles annually and publish a report (known as an Implementation Statement) to members with effect from the Scheme year ending after 1 October 2020.

**Investment process** - The processes for investing contributions and taking money from the investment options to pay benefits to ensure that they are carried out promptly and accurately.

**Security of assets** - The security of funds' assets when choosing a fund provider/manager and thereafter.

**Voting** - The fund managers' records of exercising shareholder voting rights.

**Conflicts of Interest** - Instances where the actions of the platform provider or fund managers may be in conflict with the best interests of the Scheme's members.

# Statement of Investment Principles

## Reporting

The Trustee arranges for the preparation of:

- The Scheme's audited Annual Report and Accounts (which includes the Annual Governance Statement);
- The Annual Governance Statement by the Chair of Trustees describing the Scheme's investment costs, value for members and governance during the previous year; and
- An annual Implementation Statement describing how the policies and practices described in the Statement of Investment Principles have been followed during the previous year;
- Publication of the Annual Governance Statement by the Chair of Trustee, Statement of Investment Principles and Implementation Statement in a publicly searchable location online; and
- An annual return to the Pensions Regulator.

# Statement of Investment Principles

## Appendix D

### Summary of the Scheme's service providers.

The Scheme's current service providers and their basis of remuneration are as follows:

<b>Service</b>	<b>Provider</b>	<b>Remuneration basis</b>
Investment platform provider	Aegon UK plc	Percentage of fund value included within funds' Total Expense Ratios
Fund managers	As shown in Appendices A and B	Percentage of fund value included within funds' Total Expense Ratios
Custodians	Selected by the fund managers.	Percentage of fund value included within funds' Total Expense Ratios
Pension administrator	Aegon UK plc	Percentage of fund value included within funds' Total Expense Ratios
Auditor	KPMG plc	Annual fixed fee and time cost fees
Investment Consultant	Hymans Robertson LLP	Annual fixed fee and time cost fees
Legal advisers	Travers Smith LLP	Annual fixed fee and time cost fees

**Signed For and on Behalf of the Trustees of the AXA UK Group Pension Scheme:**

\_\_\_\_\_  
Stephen Yandle  
**Trustee**

\_\_\_\_\_  
Samantha Pitt  
**Trustee**

**Date Agreed by Trustees: 29 September 2020**

## Appendix 2

### Table of funds and charges

Please note that the charges in the table below do take into account the 0.18% charge for administration services which are also borne by members.

#### 2a Default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the default arrangement were:

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
AXA Global Equity Passive	N/A	0.21	2.10	BlackRock 30:70 Currency-hedged Global Equity Index	GB00B8WR9525	0.01	0.10
AXA Diversified Growth Active	N/A	0.66	6.60	Invesco Global Targeted Return Fund Schroder Dynamic Multi-Asset Fund (DMAF)	GB00BPZ5TQ39 GB00B2Q1N560	0.40	4.00
AXA Cash Active	N/A	0.18	1.80	BlackRock Sterling Liquidity Fund	GB00B8WR9293	0.01	0.10
AXA Absolute Return Bond	N/A	0.51	5.10	Kames Absolute Return Bond Fund	GB00BRCJNJ36	0.36	3.60

Source: Aegon

The Trustee monitors the total charges of the funds used in the default strategy at three-monthly reference points. The total charges borne by members in the default option during the period covered by this Statement comply with the charge cap. The progression of charges over time for members in the default is:

Period to retirement	Charge	
	% p.a.	£ per £1,000
40 to 25 years	0.21	2.10
15 years	0.51	5.10
10 years	0.66	6.60
3 years	0.63	6.30
At retirement	0.50	5.00

Source: Aegon

The average charge over 40 years would be 0.40% p.a.

## Appendix 2

### 2b Other lifestyle option - Annuity Lifecycle Strategy

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the Annuity Lifecycle Strategy were:

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
AXA Global Equity Passive	N/A	0.21	2.10	BlackRock 30:70 Currency-hedged Global Equity Index	GB00B8WR9525	0.01	0.10
AXA Diversified Growth Active	N/A	0.66	6.60	Invesco Global Targeted Return Fund Schroder Dynamic Multi-Asset Fund (DMAF)	GB00BPZ5TQ39 GB00B2Q1N560	0.40	4.00
AXA Cash Active	N/A	0.18	1.80	BlackRock Sterling Liquidity Fund	GB00B8WR9293	0.01	0.10
AXA UK Corporate Bonds Passive	N/A	0.20	2.00	BlackRock Corporate Bond All Stocks Index Fund	GB00B8WR8Y49	0.02	0.20
AXA UK Long Gilts Passive	N/A	0.19	1.90	BlackRock Over 15 Year UK Gilt Index Tracker Fund	GB00B8WR9079	0.01	0.10

Source: Aegon

## Appendix 2

### 2c Self-select funds outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the self-select funds were:

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
AXA Global Equity Passive	N/A	0.21	2.10	BlackRock 30:70 Currency-hedged Global Equity Index	GB00B8WR9418	0.01	0.10
AXA Diversified Growth Active	N/A	0.66	6.60	Invesco Global Targeted Return Fund Schroder Dynamic Multi-Asset Fund (DMAF)	GB00BPZ5TQ39 GB00B2Q1N560	0.40	4.00
AXA Absolute Return Bond	N/A	0.51	5.10	Kames Absolute Return Bond Fund	GB00BRCJNJ36	0.36	3.60
AXA UK Equity Passive	N/A	0.19	1.90	BlackRock UK Equity Index Fund	GB00B8WR8Z55	0.00	0.00
AXA UK Corporate Bonds Passive	N/A	0.20	2.00	BlackRock Corporate Bond All Stocks Index Fund	GB00B8WR8Y49	0.02	0.20
AXA UK Long Gilts Passive	N/A	0.19	1.90	BlackRock Over 15 Year UK Gilt Index Fund	GB00B8WR9079	0.01	0.10
AXA Cash Active	N/A	0.18	1.80	BlackRock Sterling Liquidity Fund	GB00B8WR9293	0.01	0.10
AXA UK Equity Active	N/A	0.99	9.90	Artemis UK Special Situations Fund	GB00B8WR8F59	0.16	1.60
AXA Global Equity Active	N/A	0.83	8.30	MFS Global Equity Fund	GB00B8WR9418	0.02	0.20
AXA Overseas Equity Passive	N/A	0.19	1.90	BlackRock World ex-UK Equity Index Tracker Fund	GB00B8WR9632	0.00	0.00
AXA SRI	N/A	0.48	4.80	LGIM Ethical Global Equity Index Fund	GB00BRCJNH12	0.00	0.00
AXA UK Long Index-Linked Gilts Passive	N/A	0.19	1.90	BlackRock Over 5 Years Index Gilt Fund	GB00B8WR9186	0.06	0.60
AXA Shariah Law Passive	N/A	0.48	4.80	HSBC Islamic Global Equity Index Fund	GB00B8WR9749	0.05	0.50
AXA Emerging Markets	N/A	1.03	10.30	JP Morgan All-Emerging Markets Equity Fund	GB00BRCJNK41	0.27	2.70
AXA Property	N/A	0.95	9.50	Aegon Property Fund	GB00BRCJNL57	-0.07	-0.70
AXA Zone – AXA UK Select Opportunities	N/A	1.01	10.10	AXA UK Select Opportunities Fund	GB00BYPGQR99	0.10	1.00
AXA Zone – Architas Passive Moderate	N/A	0.60	6.00	Architas Passive Moderate Fund	GB00BYPGR328	0.03	0.30
AXA Zone – Architas Diversified Real Assets Fund	N/A	1.23	12.30	Architas Diversified Real Assets Fund	GB00BDR09G29	0.12	1.20

Source: Aegon

## Appendix 2

### 2c Self-select funds outside the default arrangement

#### Legacy AVC Arrangements

#### Equitable Life

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
Equitable Life With Profits Fund	Not available	1.00	10.00	Equitable Life With Profits Fund	Not available	0.04	0.40

#### Utmost Life

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
Asia Pacific	Not available	0.75	7.50	ASI Asia Pacific Equity Enhanced Index Fund	GB00BRJL7V21	0.18	1.80
European Equity	Not available	0.75	7.50	ASI European Equity Enhanced Index Fund	GB00BRJL7X45	0.21	2.10
US Equity	Not available	0.75	7.50	ASI American Equity Enhanced Index Fund	GB00BRJL8192	0.02	0.20
UK Equity	Not available	0.75	7.50	ASI UK Equity Enhanced Index Fund	GB00BRJL8531	0.30	3.00
UK FTSE All Share Tracker	Not available	0.50	5.00	ASI UK All Share Tracker Fund	GB00B61C0396	0.03	0.30
Fund of Investment Trusts	Not available	0.75	7.50	Halifax Fund of Investment Trusts Fund	GB00B29MCX79	0.49	4.90
UK Government Bond	Not available	0.50	5.00	ASI Sterling Government Bond Fund	GB00BWK26S93	0.11	1.10
Property	Not available	1.00	10.00	Aberdeen UK Property Fund	GB00BTLX1F24	0.65	6.50
Global Equity	Not available	0.75	7.50	ASI World Equity Enhanced Index Fund	GB00BRJL7Z68	0.13	1.30
Money Market	Not available	0.50	5.00	ASI Liquidity Fund (Lux) – Sterling Fund	LU0966092990	0.01	0.10

\* ISIN = the International Securities Identification Number unique to each fund.

\*\* Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Costs and Expenses.

\*\*\* Underlying Fund = the fund in which the Scheme's top level Fund invests.

### Appendix 3

## Tables illustrating the impact of charges and costs

The following tables show the potential impact of the costs and charges borne by members on projected values at retirement in today's money for typical members joining at a range of ages and opening fund values. Please note that in some cases the projected value of the member will decrease where the expected returns are lower than the inflation assumption in the calculations.

### 3a For the default Drawdown Lifecycle Strategy

For an average active member in 2008 section, aged 41, retiring at age 65 with average starting salary £33,825 and starting pot size £47,600.

Years to retirement	Before costs and charges £	After costs and charges are taken £
0	£177,005	£154,681
5	£153,210	£137,553
10	£125,597	£116,792
15	£97,966	£94,234
20	£69,842	£68,875
24	£47,600	£47,600

Source: Hymans Robertson

For an average deferred member in 2008 section, aged 42, retiring at age 65 with starting pot size £21,800.

Years to retirement	Before costs and charges £	After costs and charges are taken £
0	£24,975	£20,680
5	£25,024	£21,697
10	£24,423	£22,296
15	£23,682	£22,638
20	£22,596	£22,308
23	£21,800	£21,800

Source: Hymans Robertson

For a new joiner in 2017 section, aged 18, retiring at age 65 with average starting salary £17,425 and starting pot size £0.

Years to retirement	Before costs and charges £	After costs and charges are taken £
0	£88,006	£74,340
5	£80,459	£70,087
10	£70,874	£64,169
15	£61,107	£57,367
20	£50,749	£48,863
25	£40,154	£39,186
30	£29,870	£29,318
35	£20,307	£20,044
40	£11,413	£11,328
45	£3,143	£3,137
47	£0	£0

Source: Hymans Robertson

### Appendix 3

#### 3a For the default Drawdown Lifecycle Strategy

For an average member in Health Services / Health on Line section, aged 37, retiring at age 65 with average starting salary £25,900 and starting pot size £4,600.

Years to retirement	Before costs and charges £	After costs and charges are taken £
0	£74,519	£65,502
5	£63,192	£56,968
10	£50,300	£46,869
15	£37,452	£36,015
20	£24,504	£24,091
25	£11,865	£11,812
28	£4,600	£4,600

Source: Hymans Robertson

### Appendix 3

#### 3b For a selection of the self-select funds:

For an average active member in 2008 section, aged 41, retiring at age 65 with average starting salary £33,825 and starting pot size £47,600.

Years to retirement	AXA UK Equity Passive Fund Most popular		AXA Emerging Markets Fund Highest risk		AXA Zone – Architas Diversified Real Assets Fund Most expensive		AXA Cash Active Fund Least expensive and lowest risk	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
0	£206,570	£200,376	£242,297	£197,069	£176,825	£144,356	£122,302	£119,059
5	£168,733	£164,610	£191,974	£162,396	£148,645	£125,762	£109,511	£107,064
10	£133,548	£131,039	£147,363	£129,685	£121,142	£106,377	£95,394	£93,699
15	£100,827	£99,528	£107,816	£98,822	£94,300	£86,167	£79,817	£78,810
20	£70,400	£69,950	£72,759	£69,704	£68,103	£65,098	£62,626	£62,223
24	£47,600	£47,600	£47,600	£47,600	£47,600	£47,600	£47,600	£47,600

Source: Hymans Robertson

For an average deferred member in 2008 section, aged 42, retiring at age 65 with starting pot size £21,800.

Years to retirement	AXA UK Equity Passive Fund Most popular		AXA Emerging Markets Fund Highest risk		AXA Zone – Architas Diversified Real Assets Fund Most expensive		AXA Cash Active Fund Least expensive and lowest risk	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
0	£30,449	£29,171	£37,946	£28,492	£24,382	£17,999	£13,856	£13,263
5	£28,316	£27,381	£33,638	£26,881	£23,796	£18,764	£15,290	£14,776
10	£26,332	£25,701	£29,820	£25,361	£23,224	£19,563	£16,873	£16,462
15	£24,487	£24,124	£26,435	£23,927	£22,665	£20,395	£18,621	£18,340
20	£22,771	£22,644	£23,434	£22,575	£22,121	£21,262	£20,549	£20,432
23	£21,800	£21,800	£21,800	£21,800	£21,800	£21,800	£21,800	£21,800

Source: Hymans Robertson

### Appendix 3

#### 3b For a selection of the self-select funds:

For a new joiner in 2017 section, aged 18, retiring at age 65 with average starting salary £17,425 and starting pot size £0.

Years to retirement	AXA UK Equity Passive Fund Most popular		AXA Emerging Markets Fund Highest risk		AXA Zone – Architas Diversified Real Assets Fund Most expensive		AXA Cash Active Fund Least expensive and lowest risk	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
0	£104,430	£99,492	£135,222	£96,904	£81,801	£60,242	£47,473	£45,723
5	£89,643	£85,882	£112,576	£83,901	£72,184	£54,896	£44,249	£42,760
10	£75,891	£73,108	£92,501	£71,634	£62,797	£49,322	£40,692	£39,460
15	£63,104	£61,118	£74,705	£60,060	£53,636	£43,511	£36,766	£35,783
20	£51,212	£49,863	£58,928	£49,141	£44,695	£37,453	£32,433	£31,686
25	£40,154	£39,298	£44,943	£38,839	£35,969	£31,138	£27,652	£27,123
30	£29,870	£29,382	£32,545	£29,119	£27,453	£24,553	£22,376	£22,038
35	£20,307	£20,075	£21,554	£19,949	£19,142	£17,689	£16,554	£16,373
40	£11,413	£11,338	£11,811	£11,297	£11,030	£10,533	£10,128	£10,063
45	£3,143	£3,138	£3,174	£3,134	£3,113	£3,072	£3,038	£3,032
47	£0,000	£0,000	£0,000	£0,000	£0,000	£0,000	£0,000	£0,000

For an average member in Health Services / Health on Line section, aged 37, retiring at age 65 with average starting salary £25,900 and starting pot size £4,600.

Years to retirement	AXA UK Equity Passive Fund Most popular		AXA Emerging Markets Fund Highest risk		AXA Zone – Architas Diversified Real Assets Fund Most expensive		AXA Cash Active Fund Least expensive and lowest risk	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
0	£86,462	£83,934	£101,088	£82,585	£74,337	£61,144	£52,196	£50,881
5	£69,301	£67,629	£78,768	£66,732	£61,177	£51,989	£45,503	£44,529
10	£53,341	£52,324	£58,982	£51,776	£48,333	£42,445	£38,116	£37,452
15	£38,500	£37,959	£41,441	£37,666	£35,799	£32,495	£29,965	£29,568
20	£24,699	£24,475	£25,892	£24,353	£23,565	£22,122	£20,970	£20,785
25	£11,865	£11,818	£12,108	£11,793	£11,625	£11,308	£11,043	£10,999
28	£4,600	£4,600	£4,600	£4,600	£4,600	£4,600	£4,600	£4,600

Source: Hymans Robertson

### Appendix 3

#### 3c For a selection of the AVC funds:

Please see tables above.

#### Assumptions

The assumptions used in these calculations were as follows:

For an average active member in 2008 section, aged 41, retiring at age 65 with average starting salary £33,825 and starting pot size £47,600:

- The opening DC pot size is £47,600.
- Inflation is assumed to be 2.5% p.a. (in line with SMPI assumptions and real salary growth is assumed to be zero.)
- The starting salary is assumed to be £33,825.
- The total ongoing contribution rate is assumed to be 14.5% of salary.
- Contributions are assumed to be paid every year with no contribution holidays.
- The projected values are shown up to age 65, the most common normal retirement age for members of the Scheme.
- The projected gross growth rates for each fund are as follows (these are based on returns assumed for the Scheme's Statutory Money Purchase Illustrations, are shown rounded to one decimal place and before ongoing management charges and transaction costs are applied):

<b>Fund</b>	<b>Return % p.a.</b>	<b>TER % p.a.</b>	<b>Transaction Cost % p.a.</b>
AXA Global Equity Passive Fund	4.00	0.21	0.0096
AXA Diversified Growth Active Fund	3.00	0.66	0.3962
AXA Absolute Return Bond	1.50	0.51	0.3622
AXA Cash Active	0.50	0.18	0.0109
AXA Emerging Markets	5.00	1.03	0.2700
AXA UK Equity Passive	4.00	0.19	0.3700
AXA Zone - Architas Diversified Real Assets Fund	3.00	1.23	0.1203

### Appendix 3

#### 3c For a selection of the AVC funds:

For an average deferred member in 2008 section, aged 42, retiring at age 65 with starting pot size £21,800:

- The opening DC pot size is £21,800.
- Inflation is assumed to be 2.5% p.a. (in line with SMPI assumptions and real salary growth is assumed to be zero.)
- The salary and ongoing contribution rate is assumed to be £0.
- The projected values are shown up to age 65, the most common normal retirement age for members of the Scheme.
- The projected gross growth rates for each fund are as follows (these are based on returns assumed for the Scheme's Statutory Money Purchase Illustrations, are shown rounded to one decimal place and before ongoing management charges and transaction costs are applied):

Fund	Return % p.a.	TER % p.a.	Transaction Cost % p.a.
AXA Global Equity Passive Fund	4.00	0.21	0.0096
AXA Diversified Growth Active Fund	3.00	0.66	0.3962
AXA Absolute Return Bond	1.50	0.51	0.3622
AXA Cash Active	0.50	0.18	0.0109
AXA Emerging Markets	5.00	1.03	0.2700
AXA UK Equity Passive	4.00	0.19	0.3700
AXA Zone - Architas Diversified Real Assets Fund	3.00	1.23	0.1203

For a new joiner in 2017 section, aged 18, retiring at age 65 with average starting salary £17,425 and starting pot size £0:

- The opening DC pot size is £0.
- Inflation is assumed to be 2.5% p.a. (in line with SMPI assumptions and real salary growth is assumed to be zero.)
- The starting salary is assumed to be £17,425.
- The total ongoing contribution rate is assumed to be 9% of salary.
- Contributions are assumed to be paid every year with no contribution holidays.
- The projected values are shown up to age 65, the most common normal retirement age for members of the Scheme.
- Where transaction costs for a fund are unavailable, they have been assumed to be zero.
- The projected gross growth rates for each fund are as follows (these are based on returns assumed for the Scheme's Statutory Money Purchase Illustrations, are shown rounded to one decimal place and before ongoing management charges and transaction costs are applied):

Fund	Return % p.a.	TER % p.a.	Transaction Cost % p.a.
AXA Global Equity Passive Fund	4.00	0.21	0.0096
AXA Diversified Growth Active Fund	3.00	0.66	0.3962
AXA Absolute Return Bond	1.50	0.51	0.3622
AXA Cash Active	0.50	0.18	0.0109
AXA Emerging Markets	5.00	1.03	0.2700
AXA UK Equity Passive	4.00	0.19	0.3700
AXA Zone - Architas Diversified Real Assets Fund	3.00	1.23	0.1203

### Appendix 3

#### 3c For a selection of the AVC funds:

For an average member in Health Services / Health on Line section, aged 37, retiring at age 65 with average starting salary £25,900 and starting pot size £4,600:

- The opening DC pot size is £4,600.
- Inflation is assumed to be 2.5% p.a. (in line with SMPI assumptions and real salary growth is assumed to be zero).
- The starting salary is assumed to be £25,900.
- The total ongoing contribution rate is assumed to be 9% of salary.
- Contributions are assumed to be paid every year with no contribution holidays.
- The projected values are shown up to age 65, the most common normal retirement age for members of the Scheme.
- Where transaction costs for a fund are unavailable, they have been assumed to be zero.
- The projected gross growth rates for each fund are as follows (these are based on returns assumed for the Scheme's Statutory Money Purchase Illustrations, are shown rounded to one decimal place and before ongoing management charges and transaction costs are applied):

Fund	Return % p.a.	TER % p.a.	Transaction Cost % p.a.
AXA Global Equity Passive Fund	4.00	0.21	0.0096
AXA Diversified Growth Active Fund	3.00	0.66	0.3962
AXA Absolute Return Bond	1.50	0.51	0.3622
AXA Cash Active	0.50	0.18	0.0109
AXA Emerging Markets	5.00	1.03	0.2700
AXA UK Equity Passive	4.00	0.19	0.3700
AXA Zone - Architas Diversified Real Assets Fund	3.00	1.23	0.1203

Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- The assumptions used may differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Are not guaranteed;
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time;
- May not prove to be a good indication of how your own savings might grow;
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.