

# Baxi Group Pension Scheme

## 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 Baxi Group Pension Scheme ("the Scheme") are being looked after and give good value. This Statement sets out how the Trustee Directors ("the Trustee") ensure this and how they 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 and information about how the Scheme is managed are posted on-line at [www.baxipensions.co.uk](http://www.baxipensions.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 arrangements");
- 3 Costs and charges – what costs and charges members 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 members 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 and understanding – what we as Trustee Directors have done to maintain and improve our level of knowledge and obtain the professional advice we need to look after the Scheme for you; and
- 7 Completed and future actions – 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?

We can confirm to you that:

#### 1 **How we manage your Scheme**

Over the reporting year to 31 March 2020, Simon Bryant and Sarah Bailey stepped down from the Trustee Board in May and June 2019, respectively. Victoria Stuart and Mark Larnar were appointed as Trustee Directors in June 2019 and March 2020, respectively.

Since 31 March 2020, Jim Smart, the Chairman of the Trustee, has stepped down from the Trustee Board to enjoy retirement after 5 years of serving as one of your Trustee Directors. Jim has been replaced by Mark Taylor from BESTrustees Limited, effective from 1 April 2020, who will chair the Scheme going forward. An additional Trustee Director, John McFaull, was also appointed to the Board in June 2020. Mark Larnar stepped down as a Director on 31 July 2020.

The Statement of Investment Principles (SIP), which sets out the Trustee's policies on how your contributions should be invested, was last reviewed on 16 June 2020 and signed on 23 September 2020. As part of this last review, it was updated to reflect further regulatory requirements on Responsible Investment, due by 1 October 2020. You can find a copy of the SIP online at [www.baxipensions.co.uk](http://www.baxipensions.co.uk). The first implementation statement describing how the Trustee has followed its policies set out in the SIP will be published in 2021.

At 31 March 2020 the Scheme had 2,353 members and was worth a total of £57.5 million.

## **2 Investment options**

We completed an in-depth review of the Scheme's default arrangement in July 2018. We're satisfied that the default arrangement has performed in-line with our objectives and remains suitable for most members because the default arrangement still meets the objectives set out in the Statement of Investment Principles – see section 2 for more details. The next full review of the investment options will be carried out in July 2021.

We also monitor investment performance on a quarterly basis each year and plan to do a high level annual review of investment suitability over the coming years in line with Regulator requirements.

There have been no changes to the investment options in the last year.

## **3 Cost and charges**

Members pay for the Scheme's investment charges while the Company pay for the Scheme's administration, communications, and governance services.

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", the BGPS Drawdown Lifestyle, were in a range of 0.125% to 0.513% of the amount invested (or put another way in a range of £1.25 to £5.13 for every £1,000 invested) – which is well 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. Over a 20 year period, the current level of costs and charges for the Scheme's default arrangement, the BGPS Drawdown Lifestyle, could reduce the size of an average member's pension pot in today's money by around £5,500 leaving a pot size of around £103,000 at age 65. You can find more information about the impact of costs and charges in appendix 3.

## **4 Value for Members**

Each year we look at the costs and charges members pay as well as the range and quality of the services members pay for and see how they compare with similar pension schemes.

We found that the Scheme gave good value in the last year. Over the next year our main priority to improve value for you will be to continue to monitor investment performance and charges of the Scheme's current investment offerings and to rectify the position on some of the remaining inadvertent defaults – see section 2 for more details.

## **5 Administration**

We check that the administration of the Scheme is going smoothly at our quarterly meetings and found that:

- All the key financial transactions were processed promptly and accurately by Buck who administer the Scheme for the Trustee; and
- For the majority of the year, the wider administration of the Scheme was completed within the service standards we agreed with Buck. 98.9%, 99.2% and 99.3% of all cases were completed within the service standards for Quarter 2, 3 and 4 of 2019 respectively. This fell slightly to 94.2% in Quarter 1 of 2020.

The Covid19 coronavirus pandemic inevitably affected the Scheme's services during March 2020 while:

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

## 6 Trustee knowledge and understanding

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, and we undergo training to help us do this.

Victoria Stuart became a Trustee Directors in the last reporting year and has been going through a thorough induction programme. All of the Trustee Directors attended training sessions during the year on subjects such as 21<sup>st</sup> Century Trusteeship and Governance, new disclosure requirements and the balance of powers within the Scheme. There were several training sessions in the diary to cover a Trustee effectiveness review and an assessment of our level of knowledge and understanding which were postponed due to the Covid-19 pandemic. The Trustee plans to reorganise these sessions by the end of the calendar year. In the meantime, we have reviewed and updated the DC training plan – see section 6 for more details.

There have been no changes to the Trustee's advisers during the year.

Overall, the Trustee Directors believe that they still have the right skills and expertise together with access to good quality professional advice so that they can run your Scheme properly – this will be assessed again at the Trustee effectiveness review.

## 7 Completed and future actions

During the last year the Trustee undertook the following (over and above “business as usual”):

- Improved Value for Members by:
  - *Working closely with Buck, the Scheme administrator, to improve performance against Service Level Agreements;*
  - *Reviewing and simplifying the annual benefit statements to make them more member-friendly;*
  - *Reviewing the AVCs held with Utmost Life (formerly Equitable Life) and agreeing that they would be transferred to the Legal and General investment platform in Q2 2020 where members can access greater value for money via the BGPS lifestyle strategies and self-select funds;*
- Arranged for the publication of this Statement, together with the Statement of Investment Principles in a publicly searchable location on the internet with a note of this location provided in the annual benefit statements;
- Organised a Trustee Training Day on 17 June 2019 which covered training on both defined benefit and defined contribution topics;
- Taken steps to rectify some of the inadvertent defaults which were created as a result of the December 2018 transition where members who were not invested in the default arrangements were mapped to like-for-like funds without consent;
- Set objectives for its investment consultants following an order from the Competition and Markets Authority;
- Undertook a site visit to Buck to check that the Trustee was satisfied with the administration procedures and policies that are currently in place, as well as to ensure that the administration fees reflected the quality of service; and
- Updated the Statement of Investment Principles to reflect the new regulatory requirements on Responsible Investment which came into force on 1 October 2019.

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

- Reorganise the postponed Trustee Training Day, which was meant to be held on 15 June 2020, but was postponed due to the coronavirus pandemic;
- Work with L&G to widen their reporting on responsible investing and how they vote at shareholder meetings;
- An annual high-level review on the suitability of the Scheme's investment options;
- Improve Value for Members by:
  - *Reviewing the communications strategy, including the effectiveness of written communications, as well as the member portal and the Baxi pensions website;*
  - *Reviewing the other historic AVCs;*
  - *Transferring members' AVCs held with Utmost Life (formerly Equitable Life) and Clerical Medical to the Legal and General investment platform in Q2 2020;*
  - *Considering offering members the option to transfer to the Legal and General WorkSave Master Trust at retirement. This may be of interest to some members who wish to access their pension savings on a flexible basis during their retirement.*
- Seek feedback from members on:
  - *The investment changes implemented in December 2018; and*
  - *The take-up of self-select funds.*
- Undertake a Trustee Effectiveness Review;
- Carry out an assessment to confirm and identify any gaps in its knowledge and skills;
- Rectify some of the remaining inadvertent defaults, with the exception of the BGPS Annuity Lifestyle and the BGPS Cash Lifestyle, which will continue to be inadvertent defaults until the next full investment review due by July 2021 (see section 2 for more details);
- Update the SIP to reflect further regulatory requirements on Responsible Investment, due by 1 October 2020. This includes a requirement to explain how it incentivises investment managers to align their investment strategy with the Trustee's policies; and
- Complete their first implementation statement describing how they have followed the policies in the Scheme's SIP.

The Trustee believes that this work will help you get the best out of our Scheme.

We were unable to obtain some information on the Scheme – this is set out in section 8. We are chasing the fund managers 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.

We hope this Statement is of help to you planning for your future. If you have any questions, please contact the Scheme Administrator (Buck, PO Box 319, Mitcheldean, GL14 9BF. T: 0330 123 9581, email: [baxipensions@buck.com](mailto:baxipensions@buck.com)).

# Introduction

The Scheme provides benefits on a defined contribution ("DC") basis. This means that your benefits will largely be based on the amount of contributions paid in and investment returns net of fees. Governance requirements apply to 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).



Date: 23 September 2020

**Mark Taylor, BESTrustees Limited**

**Signed by the Chair of the Trustee of the Baxi Group Pension Scheme**

# 1 How we manage your Scheme

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

- BESTrustees Limited, represented by Jim Smart
- Karen Roberts
- Diane Sutherland
- Victoria Stuart
- Steve Randall
- Philip Lowton
- Simon Oliver
- Kris Swiderski
- Mark Larnar

Over the reporting year to 31 March 2020, Simon Bryant and Sarah Bailey stepped down from the Trustee Board in May and June 2019, respectively. Victoria Stuart and Mark Larnar were appointed as Trustee Directors in June 2019 and March 2020, respectively.

Since 31 March 2020, Jim Smart, the Chairman of the Trustee, has stepped down from the Trustee Board to enjoy retirement after 5 years of serving as one of your Trustee Directors. Jim has been replaced by Mark Taylor from BESTrustees, effective from 1 April 2020, who will chair the Scheme going forward. John McFaul was also appointed as Trustee Director in June 2020, to fill the vacancy for a pensioner member nominated Trustee Director. Mark Larnar stepped down as a Director on 31 July 2020.

The Scheme is governed by a formal Trust Deed and Rules. The Trustee must operate the Scheme in accordance with the Trust Deed and Rules and the legal and regulatory regime. There were no amendments to the Trust Deed and Rules that apply to the DC Section of the Scheme, over the reporting period.

The Statement of Investment Principles (SIP) sets out the Trustee's investment policies which the Trustee, with the help of its advisers, review at least every three years. The last review was carried out on 16 June 2020 and the Statement was signed on 23 September 2020. This updated SIP incorporates further requirements on Responsible Investment, due by 1 October 2020. You can find a copy of the SIP online at [www.baxipensions.co.uk](http://www.baxipensions.co.uk).

Over the year to 31 March 2020 the number of members grew from 2,233 to 2,353, while the total value of members' pension pots fell from £60.5 million to £57.5 million. It should be noted that the total value of members' pension pots was £67.7 million at 31 December 2019 and the fall in members' pension pots has been largely as a result of the Coronavirus pandemic. Between 31 December 2019 and 31 March 2020, stock markets fell by around 25%. This is comparable to how other pension funds have fared over this period, and markets have started to recover since 31 March 2020. Whilst the Scheme assets have fallen, it should be noted that the impact on individual members' pots might be different. As at 30 June 2020, the total value of members' pension pots has grown to £63.3 million.

## 2 Investment options

### Default arrangement (the BGPS Drawdown Lifestyle)

The Scheme's default arrangement, the BGPS Drawdown Lifestyle, 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 to less risky funds as they approach their selected retirement date.

The main investment objectives for the default arrangement are in outline:

- To provide better member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.
- To manage the principal investment risks faced by an average member during their membership of the Scheme.
- To avoid making a decision for a member as to how they will use their savings at retirement. This will mean the fund invests in a blend of bonds, cash and diversified growth at retirement.
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 20 years from retirement.
- To progressively invest in funds which are expected over the long-term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values compared to equities, for members 10 to 20 years from retirement whose DC savings are expected by then to have grown to a size where the value at risk is material.
- During the last 10 years before retirement, to increasingly invest in lower risk funds which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

The Statement of Investment Principles covering the default arrangement is appended to this Statement. It sets out the principles governing how decisions about investments are made. It explains the Trustee's policy on things such as choosing investments, risk and return and the extent to which we take account of social, environmental or ethical considerations when taking investment decisions. 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 pages 9 to 12 and 21 to 22.

The Trustee believes that the default arrangement is appropriate for the majority of the Scheme's members because:

- The Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, the level of replacement income during retirement that members are likely to require and the likely return on investment after the deduction of charges payable on the funds used by the default option.
- The Trustee selected a lifestyle strategy targeting flexibility at retirement as the default arrangement as it reflects the option that is considered most likely to be appropriate for the majority of members who are unable to decide how they wish to take their retirement benefits or might take their benefits in a combination of ways and at different points in time. This option has a similar structure for members that would target income drawdown.

- The default arrangement manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default arrangement, the Trustee has explicitly considered the trade-off between risk and expected returns.
- Assets in the default arrangement are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. The majority of the Scheme's assets are invested in regulated products that trade mainly on regulated markets.
- The Trustee took into account the demographics of the Scheme membership and the Trustee's views on how the membership might behave at retirement.

The Trustee regularly monitors the investment performance of the default arrangement and formally reviews both the investment performance against the default arrangements' objectives and the suitability of the investment strategy at least every three years, or after significant changes to the Scheme's demographics, if sooner.

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 on 12 July 2018. The next full review is intended to take place by July 2021 or immediately following any significant change in investment policy or the Scheme's member profile. There were no circumstances which required this review to be brought forward into this Scheme year.

An annual high level review of the suitability of the default strategy is planned over the coming year in line with Regulator requirements. The Trustee receives quarterly investment monitoring reports from its DC investment advisor to continually monitor investment performance. These reports include performance details and a risk and return analysis of whether the investment strategy meets with objectives for members at different stages in the default lifestyle strategy, which is updated with performance data every quarter.

### **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 alternative lifestyle options and 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 cater for members who believe that the risk profile of the default arrangement is not appropriate to their needs, but who do not want to take an active part in selecting where contributions are invested;
- 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 by allowing them some flexibility in their selection of funds.

To support members' investment choices the Trustee offers the BGPS Future World Fund and the BGPS Islamic Equity Fund within the self-select fund options. The BGPS Future World Fund invests in a range of assets while reflecting significant environmental, social and corporate issues into the fund's strategy. The BGPS Islamic Equity Fund adheres to Islamic investment principles as interpreted and laid down by the Shariah Committee.

The Trustee carries out an in-depth review of the performance and suitability of these other investment options at least every 3 years. The last full review was completed on 12 July 2018.

In keeping with the Pensions Regulator's guidance, the Trustee also plans to carry out an annual high-level review of the performance and suitability of these other investment options. The Trustee receives quarterly investment monitoring reports from its DC investment advisor.

### **Other default arrangements**

In some circumstances (as a result of changing the investment options, or due to investment provider terms) a redirection of contributions to another fund may result in a fund becoming a default arrangement (subject to the 0.75% charge cap) for specific groups of members. We refer to this type of fund as an "inadvertent default".

During the last investment transition in December 2018, members who were invested either in the previous self-select funds, or the Cash Lifestyle, or the Annuity Lifestyle held with Columbia Threadneedle were moved to alternative like-for-like investments with LGIM i.e. the new BGPS self-select funds and the new BGPS Cash Lifestyle and BGPS Annuity Lifestyle, respectively.

Due to a clarification in Regulations, as members did not officially self-select these new investment options, all funds available to Baxi members on the LGIM platform became default arrangements for specific members (and therefore subject to additional governance requirements, including complying with the charge cap). They are reported as inadvertent defaults for the purpose of this Statement. The only exceptions are the BGPS Islamic Equity Fund and the BGPS Future World Fund, as no members were switched into these funds without consent. Members invested in the old default fund (the Mixed Lifestyle) or the previous Drawdown Lifestyle held with Columbia Threadneedle were moved to the main default arrangement, the BGPS Drawdown Lifestyle.

The Trustee believes the previous investment options held with Columbia Threadneedle were adequate for the members invested in them, as most members had previously made an active selection to invest in the fund and consequently the asset class. However, the Trustee decided to move members' investments from Columbia Threadneedle to the LGIM investment platform to benefit from lower charges, additional fund options and improved future proofing of assets. The Trustee believes the investment options members are now invested in with LGIM provide improved value for money when compared to the old options.

The Trustee has taken active steps to make sure members invested in inadvertent defaults wanted to remain invested where they were. During the first quarter of 2020 the Trustee wrote to members who were invested in inadvertent defaults, to ask them to confirm whether they wished to remain invested as they were. The letter stated that if the Trustee received no response, their pots would be moved to the main default arrangement, the BGPS Drawdown Lifestyle.

Members invested 100% in either of the two alternative lifestyle strategies, the BGPS Annuity Lifestyle or the BGPS Cash Lifestyle were not written to by the Trustee. The Trustee agreed that these lifestyles would be monitored as inadvertent default arrangements subject to the charge cap until the next full review of the default arrangement and investment strategy which is due no later than July 2021.

In March 2020 the Threadneedle Property Fund, the underlying fund used by the BGPS Property Fund, was suspended as a consequence of the Coronavirus pandemic, because Threadneedle were unable to put a fair value on the properties held by the Fund. As a result, no money could be invested in the Fund or taken out of the Fund. Therefore, the BGPS Property Fund had to remain as an inadvertent default arrangement.

The Trustee decided that all ongoing contributions into the BGPS Property Fund would be invested in the BGPS Cash Fund until the suspension on the underlying fund used by the BGPS Property Fund was lifted. As a result, the BGPS Cash Fund is also considered to be an inadvertent default arrangement for the members whose contributions would have been invested in the BGPS Property Fund.

By 31 March 2020, all the self-select funds had ceased to be regarded as default arrangements for charge cap purposes, with the exception of the BGPS Annuity Lifestyle, the BGPS Cash Lifestyle the BGPS Property Fund and the BGPS Cash Fund.

The Trustee intends to rectify the situation where the BGPS Property Fund and the BGPS Cash Fund are inadvertent default arrangements, when trading in the BGPS Property Fund resumes, by communicating with members again.

### 3 Costs and charges

The charges and costs borne by members or the Employer for the Scheme's services are:

Service	By members	By the Employer
Investment management	Yes	-
Investment transactions	Yes	-
Administration	-	Yes
Governance	-	Yes
Communications	-	Yes

The presentation of the charges and costs, together with the projections of the impact of charges and costs (both shown later in appendices 2 and 3), takes into account the relevant 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 charges are deducted before the funds' unit prices are calculated, and so are borne by members.

#### 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, and so are borne by members. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

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 Legal & General 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 Scheme's investment managers.

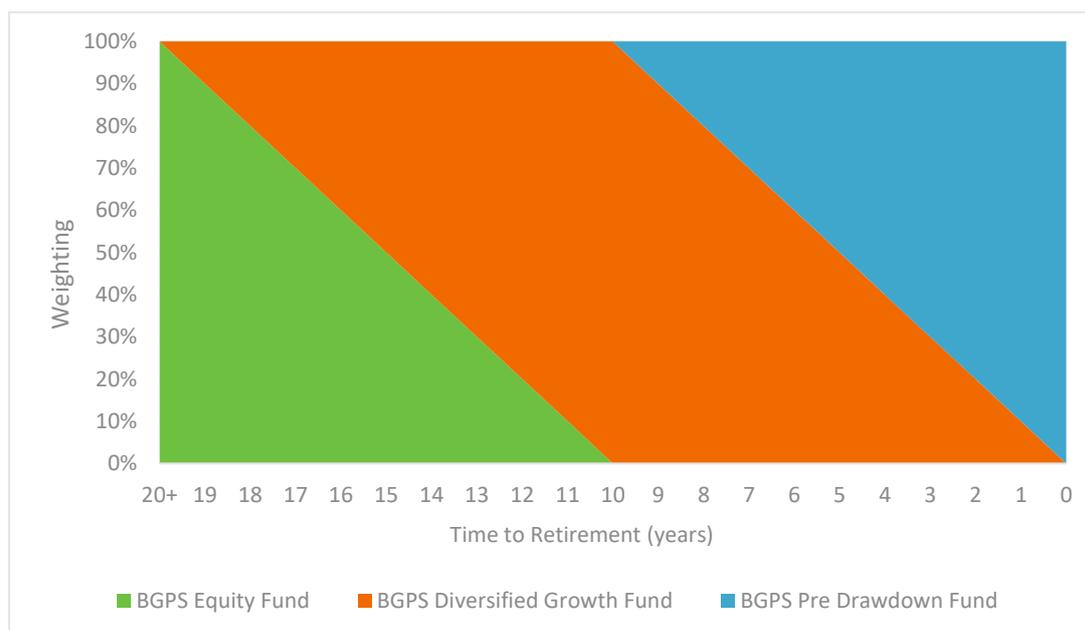
It was not possible to obtain the charges and transaction costs for some of the historic AVC funds. More details are given in “Missing Information” in section 8.

## Default arrangements

The default arrangement, the BGPS Drawdown Lifestyle, is a “lifestyle strategy” which invests contributions in funds according to how far each member is from retirement. 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.

## Default arrangement charges and transaction costs

### BGPS Drawdown Lifestyle



During the year covered by this Statement the member-borne charges for the BGPS Drawdown Lifestyle default arrangement were in a range from 0.125% to 0.513% of the amount invested or, put another way, in a range from £1.25 to £5.13 per £1,000 invested.

The transaction costs borne by members in the default arrangement during the year were in a range from 0.011% to 0.085% of the amount invested or, put another way, in a range from £0.11 to £0.85 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
20+ years	0.125%	£1.25	0.047%	£0.47
15 years	0.319%	£3.19	0.066%	£0.66
10 years	0.513%	£5.13	0.085%	£0.85
5 years	0.394%	£3.94	0.048%	£0.48
At retirement	0.275%	£2.75	0.011%	£0.11

Source: Legal & General

The average charge for the default arrangement, the BGPS Drawdown Lifestyle, over a 40 year savings period was 0.243%.

The table in Appendix 2a gives the charges and transaction costs for each fund used by the BGPS Drawdown Lifestyle.

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

**The following investment options (the BGPS Annuity Lifestyle, the BGPS Cash Lifestyle and the self-select funds, with the exception of the BGPS Future World Fund and the BGPS Islamic Equity Fund) are also considered to be “default arrangements” for some members. More details are given in “Other default arrangements” in section 2.**

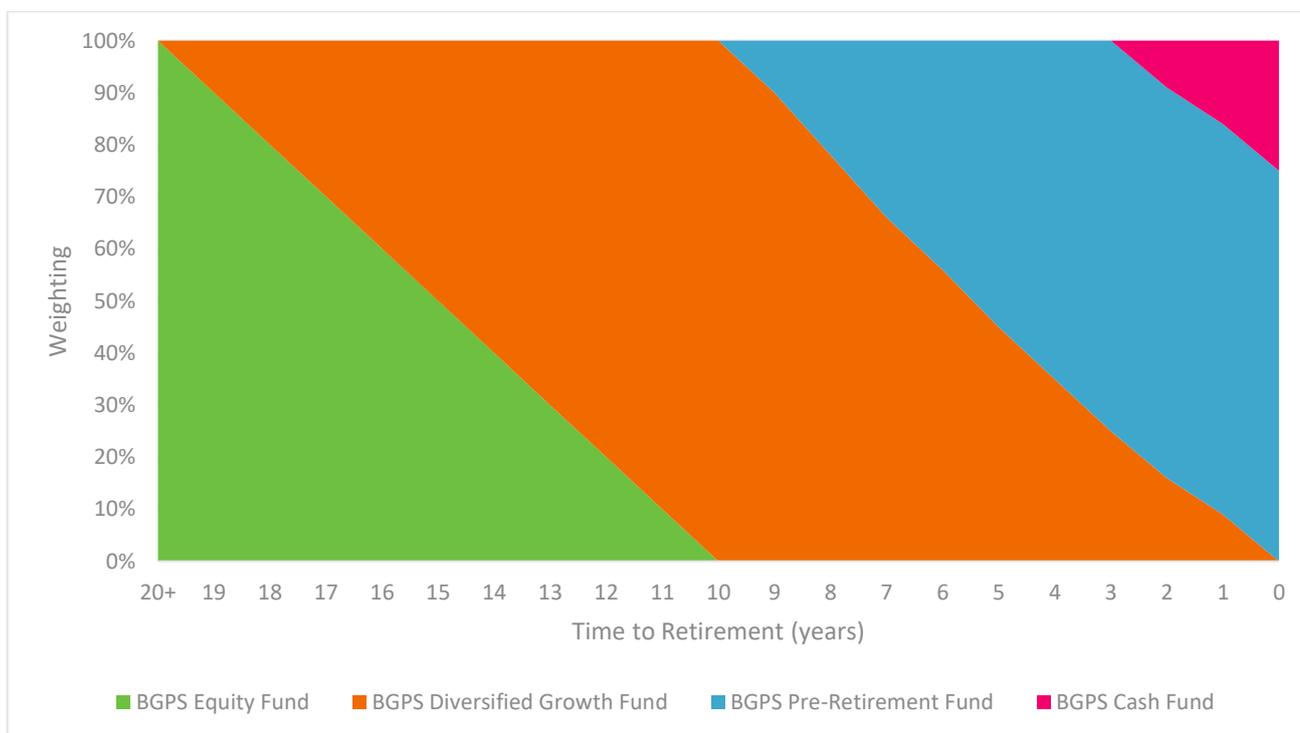
### Inadvertent default arrangements’ charges and transaction costs

In addition to the default lifestyle, the BGPS Drawdown Lifestyle, members also have the option to invest in two other lifestyles, targeting annuity purchase and cash withdrawal and 15 self-select funds.

### Lifestyle options

#### BGPS Annuity Lifestyle

The BGPS Annuity Lifestyle is a “lifestyle strategy” which invests contributions in funds according to how far each member is from retirement. 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.



During the year covered by this Statement the member-borne charges for the BGPS Annuity Lifestyle were in a range from 0.125% to 0.513% of the amount invested or, put another way, in a range from £1.25 to £5.13 per £1,000 invested.

The transaction costs borne by members invested in the BGPS Annuity Lifestyle during the year were in a range from a saving of 0.025% to a cost of 0.085% of the amount invested or, put another way, in a range from a saving of £0.25 to a cost of £0.85 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
20+ years	0.125%	£1.25	0.047%	£0.47
15 years	0.319%	£3.19	0.066%	£0.66
10 years	0.513%	£5.13	0.085%	£0.85
5 years	0.314%	£3.14	0.027%	£0.27
At retirement	0.147%	£1.47	-0.025%	-£0.25

Source: Legal & General

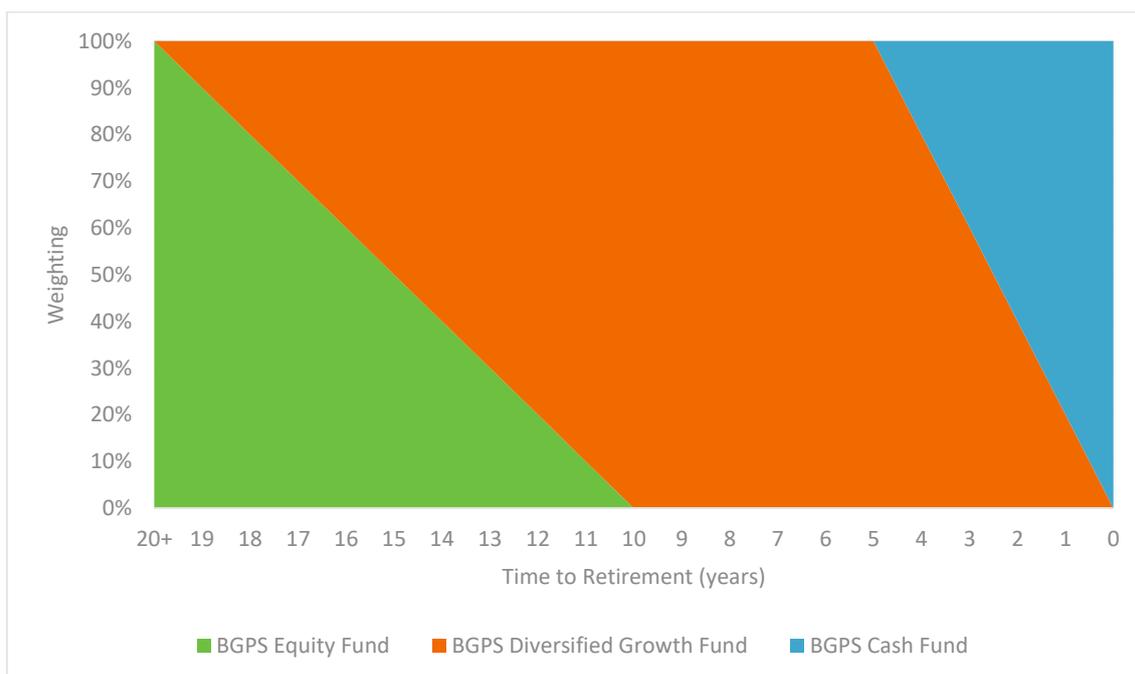
The average charge for the BGPS Annuity Lifestyle over a 40 year savings period was 0.223%.

The table in Appendix 2b gives the charges and transaction costs for each fund used by the BGPS Annuity Lifestyle.

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

### BGPS Cash Lifestyle

The BGPS Cash Lifestyle is a “lifestyle strategy” which invests contributions in funds according to how far each member is from retirement. 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.



During the year covered by this Statement the member-borne charges for the BGPS Cash Lifestyle were in a range from 0.125% to 0.513% of the amount invested or, put another way, in a range from £1.25 to £5.13 per £1,000 invested.

The transaction costs borne by members invested in the BGPS Cash Lifestyle during the year were in a range from a saving of 0.037% to a cost of 0.085% of the amount invested or, put another way, in a range from a saving of £0.37 to a cost of £0.85 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
20+ years	0.125%	£1.25	0.047%	£0.47
15 years	0.319%	£3.19	0.066%	£0.66
10 years	0.513%	£5.13	0.085%	£0.85
5 years	0.513%	£5.13	0.085%	£0.85
At retirement	0.135%	£1.35	-0.037%	-£0.37

Source: Legal & General

The average charge for the BGPS Cash Lifestyle over a 40 year savings period was 0.247%.

The table in Appendix 2b gives the charges and transaction costs for each fund used by the BGPS Cash Lifestyle.

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

### Self-select funds

The following investment options are also considered to be inadvertent defaults for some members with the exception of the BGPS Islamic Equity Fund and the BGPS Future World Fund, as no members were switched into these funds without consent.

During the year to 31 March 2020 the charges for the self-select funds were in a range from 0.050% to 0.717% of the amount invested or, put another way, in a range from £0.50 to £7.17 per £1,000 invested.

The transaction costs borne by members in the self-select funds during the year to 31 March 2020 were in a range from a saving of 0.048% to a cost of 0.110% of the amount invested or, put another way, in a range from a saving of £0.48 to a cost of £1.10 per £1,000 invested.

The table in Appendix 2c gives the charges and transaction costs for each self-select fund.

The Scheme is a qualifying scheme for auto-enrolment purposes and the member borne charges for the self-select funds which are classed as inadvertent default arrangements complied with the charge cap during the year covered by this Statement.

The level of charges for each self-select fund (including those that are inadvertent default arrangements) and the transaction costs over the period covered by this Statement are:

Fund	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
BGPS UK Equity Fund	0.091%	£0.91	-0.019%	-£0.19
BGPS World Equity Fund	0.153%	£1.53	-0.008%	-£0.08
BGPS Sterling Hedged World Equity Fund	0.133%	£1.33	0.066%	£0.66
BGPS Emerging Markets Fund	0.222%	£2.22	0.004%	£0.04
BGPS Global (50:50) Equity Fund	0.128%	£1.28	0.012%	£0.12
BGPS Islamic Equity Fund	0.215%	£2.15	0.031%	£0.31
BGPS Diversified Growth Fund	0.513%	£5.13	0.085%	£0.85
BGPS Future World Fund	0.209%	£2.09	0.049%	£0.49
BGPS Pre-Retirement Fund	0.151%	£1.51	-0.020%	-£0.20
BGPS Retirement Income Fund	0.386%	£3.86	0.044%	£0.44
BGPS Gilts Fund	0.060%	£0.60	0.029%	£0.29
BGPS Index-Linked Gilts Fund	0.050%	£0.50	0.110%	£1.10
BGPS Corporate Bond Fund	0.065%	£0.65	-0.048%	-£0.48
BGPS Property Fund*	0.717%	£7.17	0.002%	£0.02
BGPS Cash Fund*	0.135%	£1.35	-0.037%	-£0.37

Source: Legal & General

\*The BGPS Property Fund and the BGPS Cash Fund are still currently treated as inadvertent defaults as a result of the suspension due to the coronavirus pandemic. Further details of this can be found in the "Other default arrangements" sub-section of section 2.

## Other investment options

### Current Additional Voluntary Contributions ("AVCs")

The Scheme offers members in the defined benefit section a choice of 15 funds for their AVCs which are open to new contributions. These are the same funds as the self-select funds. Members can also invest AVCs in the lifestyle strategies.

During the year the charges and transaction costs for the current AVC funds are as set out immediately above in the section headed Self-select funds.

### Legacy Additional Voluntary Contributions ("AVCs")

The Scheme also held legacy AVCs during the period covered by this Statement, invested in both unit-linked and With Profits Funds. Legacy AVCs only relate to members of the defined benefit section of the Scheme who have left service and no longer contribute to these arrangements.

Some legacy AVCs are invested in With Profits Funds with Clerical Medical, Phoenix Life, Utmost Life (formerly Equitable Life) and Scottish Friendly.

The table in Appendix 2d gives the funds' charges and transaction costs for the legacy AVC funds.

## Charges and transaction costs for legacy AVCs

### Clerical Medical

There are two types of policy held by Baxi members with Clerical Medical: 67531 and 71732.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. As part of this, the Trustee reviewed the charges and other features of the Clerical Medical unit-linked funds to assess whether they offered good value for members. The Trustee concluded that members invested in unit-linked funds would receive better value from Legal and General rather than Clerical Medical, in terms of fund charges, fund choice, consolidation under one provider and online access to their funds. Therefore, the Trustee agreed that the Clerical Medical unit-linked AVCs would be transferred to the Legal and General investment platform in Q2 2020 where members can access the BGPS lifestyle strategies and self-select funds which are available to the DC section of the Scheme.

The Trustee issued communications in May 2020 to members invested in unit-linked funds with Clerical Medical to inform them of the transfer to Legal and General. Further details will be given in next year's Statement.

During the period covered by this Statement the level of member borne charges (expressed as a "Annual Management Charge" and "Transaction Cost") borne by members applying to funds used in the 67531 policy were:

Fund	Annual Management Charge* % p.a.	Transaction Cost % p.a.
Clerical Medical UK Growth Pension	1.00%	0.44% ††
Clerical Medical With Profits Funds†	1.00%	0.22%
Clerical Medical UK Index-Linked Gilt Pension	1.00%	-0.01% †††
Clerical Medical PP UK Equity Tracker Pn	1.00%	0.01% ††
Clerical Medical Balanced Pension	1.00%	0.20%
Clerical Medical International Growth Pension	1.00%	0.72%

Source: Clerical Medical

\*Total Expense Ratio ("TER") are not applicable to the above funds held with Clerical Medical. As a result, only "Annual Management Charges" have been used. The charges information is available as at 31 March 2019 rather than 31 March 2020, as Clerical Medical have not provided updated information. The Trustee will continue to request the missing information from Clerical Medical.

†The Principles and Practices of Financial Management for the Clerical Medical With Profits Funds state that there are no deductions for administration expenses other than the charges disclosed in the policy literature, as well as the costs related to buying, selling and holding assets. There is an additional charge for guarantees which depends on past and future performance of the assets, as well the overall level of money invested in and withdrawn. Clerical Medical intend to deduct no more than 1% per year, but this is not guaranteed. The percentage of assets where transaction costs have been obtained is 94%.

††The Transaction Costs figures given here are for the reporting period 1 February 2019 to 31 January 2020. Clerical Medical have confirmed that the funds have their own reporting cycles and account year ends and as such transaction costs cannot be provided for the requested period.

†††The Transaction Costs figures given here are for the reporting period 1 March 2019 to 29 February 2020. Clerical Medical have confirmed that the funds have their own reporting cycles and account year ends and as such transaction costs cannot be provided for the requested period.

During the period covered by this Statement the level of charges borne by members applying to funds used in the 71732 policy were:

<b>Fund</b>	<b>Annual Management Charge* % p.a.</b>	<b>Transaction Cost % p.a.</b>
Clerical Medical International Growth pension	0.495%	0.72%
Clerical Medical UK Growth Pension	0.495%	0.44% ††
Clerical Medical Balanced Pension	0.495%	0.20%

Source: Clerical Medical

\*Total Expense Ratio (“TER”) are not applicable to the above funds held with Clerical Medical. As a result, only “Annual Management Charges” have been used. The charges information is available as at 31 March 2019 rather than 31 March 2020, as Clerical Medical have not provided updated information. The Trustee will continue to request the missing information from Clerical Medical.

††The Transaction Costs figures given here are for the reporting period 1 February 2019 to 31 January 2020. Clerical Medical have confirmed that the funds have their own reporting cycles and account year ends and as such transaction costs cannot be provided for the requested period.

The Trustee decided not to transfer the members in the Clerical Medical With-Profits Funds to Legal and General. It is difficult for the Trustee to assess the value for members of With-Profits Funds because investment returns, charges and costs are pooled across all policyholders, and each member will have a different perception of the value of the guarantees. The collective nature of With-Profits Funds means that it is not possible for the Trustee to improve value for members.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. The Trustee agreed that whilst it would be better value for members invested in unit-linked legacy AVCs to be transferred to Legal & General, it would not be in the interest of members invested in the Clerical Medical With Profits AVCs to be transferred due to the nature of the guarantees, and therefore the Trustee believes Clerical Medical With Profits AVCs still provide value for members.

The Trustee will review the Clerical Medical With Profits AVCs again in three years’ time, no later than 2023.

### **Phoenix Life**

There are two Scheme members who are invested with Phoenix Life. Both members invested in the London Life Pension Traditional With Profits – V1 fund.

Phoenix Life confirmed that during the period covered by this Statement there were no explicit charges: plan fees, contract fees or administration fees. The level of member borne charges expressed as an “Annual Management Charge” borne by members was less than 1% p.a. The level of member borne charges expressed a “Total Expense Ratio” borne by members was 1.26%. The level of member borne charges expressed as “Transaction Costs” borne by members was 0.26%.

Phoenix Life confirmed there are no guaranteed annuity rates, however there is guaranteed annuity option. It applies after members’ normal retirement date if no changes have been made to the contract. The guaranteed rates apply at £103.43 p.a. per £1,000 on pre-1999 benefits, equivalent to c.10% of the fund value.

It is difficult for the Trustee to assess the value for members of With-Profits Funds because investment returns, charges and costs are pooled across all policyholders, and each member will have a different perception of the value of the guarantees. The collective nature of With-Profits Funds means that it is not possible for the Trustee to improve value for members.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. The Trustee agreed that whilst it would be better value for members invested in unit-linked legacy AVCs to be transferred to Legal & General, it would not be in the interest of members invested in the Phoenix With Profits AVCs to be transferred due to the nature of the guarantees, and therefore the Trustee believes Phoenix With Profits AVCs still provide value for members.

The Trustee will review the Phoenix With Profits AVCs again in three years' time, no later than 2023.

### **Utmost Life (formerly Equitable Life)**

There were three types of policy previously held by Scheme members with Equitable Life. In 2019 Equitable Life was at an advanced stage of running down its business. They announced plans to transfer the business and the transfer was completed on 1 January 2020. As part of the transfer, Equitable Life distributed statutory reserves released as a result of the closure of the Fund to With Profits policyholders by means of a capital distribution, which increased transfer values for Scheme members. Unit linked funds did not receive a share in the capital distribution. Following the transfer, the With Profits Fund and its guarantees ceased and members who were invested in the With Profits Fund were transferred to a Secure Cash Investment with Utmost, whilst members invested in unit-linked funds with Equitable Life were transferred to similar unit-linked funds with Utmost.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. In light of the transfer, the Trustee reviewed the charges and other features of the Utmost unit-linked funds to assess whether they offered good value for members. The Trustee concluded that members would receive better value from Legal and General rather than Utmost, in terms of fund charges, fund choice, consolidation under one provider and online access to their funds. Therefore, the Trustee agreed that the Utmost AVCs would be transferred to the Legal and General investment platform in Q2 2020 where members can access the BGPS lifestyle strategies and self-select funds which are available to the DC section of the Scheme.

The Trustee issued communications in May 2020 to affected members to confirm that the transfer to Utmost has been completed and inform them of any capital distribution received, as well as the transfer to Legal and General. Further details will be given in next year's Statement.

During the year to 31 March 2020 the level of charges (expressed as a "Annual Management Charge" and "Transaction Cost") borne by members applying to funds used in Utmost Life policies were:

Fund	Annual Management Charge* (12 months to 31 Dec 2020)	Transaction Cost (12 months to 31 Dec 2020)
	% p.a.	% p.a.
With-Profits Fund*	1.00	1.039%
FTSE Tracker	0.50	0.026%
Asia Pacific Equity (Far Eastern)	0.75	0.179%
Managed	0.75	0.096%
UK Equity (Pelican)	0.75	0.295%

European	0.75	0.208%
Global Equity (International)	0.75	0.132%
UK Government Bond (Gilt and Fixed Interest)	0.50	0.107%
Money Market (Money)	0.50	0.008%
CM Unitised With-Profit	0.50	Not available
US Equity (North American)	0.75	0.021%
Property	1.00	0.168%

Source: Utmost Life (formerly Equitable Life)

\*The Principles and Practices of Financial Management for the Equitable Life With Profits Fund stated that the administration and investment charges should average 1%. There was an additional charge for guarantees of 0.5% (as at December 2019).

The charges and transaction cost information is as at 31 December 2019 and it is in respect of the Equitable Life funds (prior to the transfer to Utmost Life on 1 January 2020). The Trustee will keep requesting the missing charges and transaction cost information over the period 31 December 2019 to 31 March 2020 from Utmost Life, as well as the missing charges and transaction cost information in respect of the CM Unitised With-Profit fund.

It is difficult for the Trustee to assess the value for members of With-Profits Funds because investment returns, charges and costs are pooled across all policyholders, and each member will have a different perception of the value of the guarantees. The collective nature of With-Profits Funds means that it is not possible for the Trustee to improve value for members.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. The Trustee agreed that whilst it would be better value for members invested in unit-linked legacy AVCs to be transferred to Legal & General, it would not be in the interest of members invested in the Clerical Medical With Profits AVCs to be transferred due to the nature of the guarantees, and therefore the Trustee believes Clerical Medical With Profits AVCs still provide value for members.

### **Scottish Friendly**

As at 31 March 2020, there were 3 Scheme members invested in the Scottish Friendly With Profits Fund.

Scottish Friendly confirmed that for conventional pension policies, charges are not explicit but factored into the guaranteed sum assured given at outset. Any rates of bonus are declared after allowing for the deduction of charges.

The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. This is because the With Profits Fund is a conventional pension policy. As a result, it is not possible to determine the exact charges and costs borne by members. But Scottish Friendly aims to ensure fairness between different policies and classes of policies.

Scottish Friendly have also confirmed to the Trustee in 2019 that they were looking to build a process to report transaction costs and charges in line with the FCA requirements, however they did not have those values at the time of writing. The Trustee will keep requesting the missing information from Scottish Friendly.

It is difficult for the Trustee to assess the value for members of With-Profits Funds because investment returns, charges and costs are pooled across all policyholders, and each member will have a different perception of the value of the guarantees. The collective nature of With-Profits Funds means that it is not possible for the Trustee to improve value for members.

The Trustee reviewed the legacy AVC arrangements on 20 February 2020. The Trustee agreed that whilst it would be better value for members invested in unit-linked legacy AVCs to be transferred to Legal & General, it would not be in the interest of members invested in the Scottish Friendly With Profits AVCs to be transferred due to the nature of the guarantees, and therefore the Trustee believes Scottish Friendly With Profits AVCs still provide value for members.

The Trustee will review the Scottish Friendly With Profits AVCs again in three years' time, no later than 2023.

## **Money Purchase Underpin**

Some members in the defined benefit section of the Scheme have a money purchase underpin to their benefits. This only applies to members of the NPP and IMI sections within the Scheme.

The Underpin was not triggered in respect of any members during the period covered by this Statement. It is not expected to apply to any members in practice, either now or in the future.

For members where the money purchase underpin applies, the notional value of the Underpin is calculated on retirement or death and compared to the value of the accrued defined benefits and, if higher, the pension paid is based on the benefit which could be bought by the Underpin value.

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

The Trustee has asked the Scheme's DC advisers 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 a typical member at several stages up to retirement for a selection of funds and with a contribution rate of 9%.

The tables in Appendix 3 to this Statement show these figures for the following investment options, together with a note of the assumptions used in calculating these illustrations.

- The default arrangement, the BGPS Drawdown Lifestyle; as well as
- 2 alternative lifestyle options:
  - The BGPS Annuity Lifestyle
  - The BGPS Cash Lifestyle
- 3 funds from the Scheme's self-select fund range :
  - The most popular self-select fund – the BGPS Property Fund
  - A fund with one of the highest expected returns (before costs), and also what the Trustee considers to be a high-risk fund – the BGPS Emerging Markets Fund; and
  - A fund with one of the lowest expected returns (before costs), and also what the Trustee considers to be a low-risk fund – the BGPS Cash Fund

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.

**Notes on illustrations**

- These illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow;
- The transaction cost figures used in the illustrations are those provided by the managers over the reporting period;
- Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.

## 4 Value for Members

Each year the Trustee carries 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 considers the quality of the services which members pay for. With the help of their advisers the Trustee compares the charges and costs as well as the quality of the services against other similar schemes.

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

### Approach

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

- Services – considered the services where members bear the costs (in the Scheme, this is just the investment services);
- 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

## Results

The Trustee concluded that the Scheme gave GOOD value for members in respect of the services for which the members bear the costs (the investment costs). The rationale for this rating was in outline:

Service and weighting	Rating	Rationale
<p><b>Investment</b> <b>100%</b></p>	<p><b>Good</b></p>	<p>The Scheme's investments are held with Legal &amp; General Investment Management ("LGIM") investment only platform.</p> <p>For both the investment arrangements, the default arrangement was under the 0.75% p.a. charge cap requirement.</p> <p>In the BGPS Drawdown Lifestyle, charges range from 0.125% p.a. (during the growth phase), 0.513% p.a. (during the consolidation phase) to 0.275% p.a. (at the end of the de-risking phase). Over a 40-year saving period the average charge for the BGPS Drawdown Lifestyle default is 0.243% p.a. This is an increase of 0.01% from the previous year. The Trustee notes that this still compares well to the 2016 DWP pensions survey average charge of 0.41% p.a. for a trust based qualifying scheme with more than 1,000 members.</p> <p>The self-select fund charges range from 0.050% p.a. to 0.717% p.a. which the Trustee considers to offer good value.</p> <p>In the BGPS Drawdown Lifestyle the transaction costs range from 0.011% p.a. to 0.085% p.a. depending on how far from retirement the member is.</p> <p>In the BGPS Annuity Lifestyle, charges range from 0.125% p.a. to a maximum of 0.513% p.a. depending on where the member currently sits in the investment glide path. Over a 40-year saving period the average charge is 0.223% p.a. In the BGPS Annuity Lifestyle the transaction costs range from a saving of 0.037% p.a. to a cost of 0.085% p.a. depending on how far from retirement the member is.</p> <p>In the BGPS Cash Lifestyle, charges range from 0.125% p.a. to a maximum of 0.513% p.a. depending on where the member currently sits in the investment glide path. Over a 40-year saving period the average charge is 0.247% p.a. In the BGPS Cash Lifestyle the transaction costs range from a saving of 0.037% p.a. to a cost of 0.085% p.a. depending on how far from retirement the member is.</p> <p>For the self-select funds, the transactions costs borne over the reporting period were in a range from a saving of 0.048% to a cost of 0.110%.</p> <p>The Trustee provides 2 alternative lifestyle arrangements and 15 funds for the membership to self-select. The self-select range includes both an ESG tilted fund and an Islamic fund, further enhancing value for members.</p> <p>The Trustee considers that this is a suitable range of self-select funds given membership characteristics. The Trustee and its DC investment advisor continue to monitor charges and receive quarterly detailed investment reports.</p>

		<p>Yearly performance for most funds remains competitive against respective benchmarks (after fees) with the exception of the BGPS Diversified Growth Fund, the BGPS Property Fund, the BGPS Retirement Income Fund and the BGPS Pre Drawdown Fund. The Coronavirus pandemic has caused poor performance across world financial markets in March 2020 which has impacted the fund returns against benchmarks over the reporting period. In Q2 2020 the funds have performed slightly better. The Trustee will continue to monitor the fund performance.</p> <p>The Trustee has been working hard to rectify the inadvertent defaults over the reporting period. Most of the inadvertent defaults were rectified in March 2020, however a few of them remain due to practical reasons as well as the suspension of trading within the BGPS Property Fund. The Trustee will continue to rectify some of the remaining inadvertent defaults with a view to providing Excellent value for members in future years.</p> <p>The Trustee reviewed the legacy AVC arrangements on 20 February 2020. Value for members for legacy AVCs has only been assessed at a high level, due to the complexities around legacy AVCs and With Profit Funds. The Trustee accepts that the legacy AVC funds do not provide the same value for members as the funds offered within the Scheme. The Trustee undertook a review of its unit-linked AVC arrangements after the reporting period and decided that unit-linked investments held with Utmost and Clerical Medical would be transferred to the LGIM investment platform, where members can access the BGPS lifestyle strategies and self-select funds which are available to the DC section of the Scheme. The Trustee concluded that members would receive better value from Legal and General rather than Utmost / Clerical Medical, in terms of fund charges, fund choices, consolidation under one provider and online access to their funds.</p> <p>The Trustee also agreed that it would not be in the interest of members invested in the With Profits AVCs to be transferred due to the nature of the guarantees.</p>
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## 5 Administration

The Trustee appointed Buck, a specialist third-party provider of pensions administration services, 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 the Scheme's administrator, which covers the accuracy and timeliness of all administration work including core financial transactions such as:

- The investment of contributions;
- Switching investment options; and
- Payments of benefits.

The Trustee has a service level agreement in place with the Scheme's administrator, which covers the accuracy and timeliness of other administration work including:

- Providing quotations of benefits to members who are retiring or leaving the Scheme;
- Producing annual benefit statements; and
- Responding to ad hoc enquiries from members.

The main service standards are:

- Death in service or deferment and transfer-in calculation and payment within 5 working days;
- Leaving service options (i.e. refunds, deferred benefits, retirement benefits and transfers out) calculation and payment within 10 working days;
- Deferred benefits certificate within 5 working days;
- Retirement quotation provision within 10 working days;
- Illustration calculation within 10 working days;
- Transfer-in calculation and acceptance within 10 working days;
- Passing AVCs enquiries to insurer within 5 working days;
- General enquiries within 10 working days;
- Annual Renewal and Benefit Statements certificate within 40 working days; and
- Individual Benefit Statements certificate upon request within 10 working days.

Buck aims to complete 90% of its administration work and core financial transactions within these service levels.

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

- Maintaining all the processes subject to AAF audit;
- Monitoring daily transactions;
- Monitoring daily workflow items;
- Regular internal audits of administration procedures; and
- Reviewing the level, causes and resolution of complaints.

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 Employer;
- Receiving, reviewing and discussing quarterly reports from the administrator on the processing of financial transactions and other administration processes against the agreed service levels – the performance against service levels over the reporting year was 98.9% in Q2 2019, 99.2% in Q3 2019, 99.3% in Q4 2019 and 94.2% in Q1 2020;
- Considering the reasons for and resolution of any breaches of service standards;
- Arranging reviews of data accuracy. The accuracy of the common data was 94.33%. The accuracy of the conditional data was 44.91%;
- Receiving reports from the Scheme's Auditor, who independently tests sample transactions for accuracy and timeliness; and
- Considering member feedback including any complaints.

The Scheme's administrators, Buck, have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. The internal controls can be provided on request, if needed.

The Trustee has an Administration Sub Committee in place, which meets four times a year, ahead of Trustee meetings, to address administration matters in greater detail. A site visit was undertaken within the reporting period on 20 November 2019, by Jim Smart, to check that the Trustee was satisfied with the administration procedures and policies that are currently in place, as well as to ensure that the administration fees reflected the quality of service.

The Trustee is satisfied that the service standards are competitive because its advisors have reviewed their SLA's in comparison to other administration providers and are satisfied they are in line with the market. The following quote was provided by Buck:

*In terms of our administration services, we use a number of benchmarking measures to ensure that our service delivery, commercials and proposition remain competitive and in line with client and market expectations.*

*Our scope of services and service levels are based on industry set guidelines such as those determined by PASA. We annually participate in industry surveys (KGC Associates as an example) that independently assess our pricing and commercial standing in the administration market. This information is fed back to ourselves to ensure our administration services continue to deliver value for money for our clients.*

*Finally, our administration proposition is regularly assessed by a number of Third Party Administration evaluators to again check that it delivers as expected, is commercially fair and is being developed to meet the current and future needs of the market.*

Overall, the Trustee is satisfied that during the year:

- Core financial transactions were processed accurately, promptly and efficiently;
- There have been no material administration errors in relation to processing core financial transactions; and
- The wider administration of the Scheme achieved the agreed service standards.

The Coronavirus pandemic inevitably affected administration of the Scheme during March 2020 while:

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

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 Buck's control. Nevertheless, the Trustee is satisfied that Buck took reasonable steps to ensure key financial transactions took place and services were restored as soon as possible.

### **Bulk transfer of assets**

During the Scheme year there was a large-scale transfer between funds affecting a number of members as a result of the Trustee's decision to rectify some of the inadvertent defaults, which were unintentionally created as a result of the December 2018 investment transition where members were switched into like-for-like investments from Threadneedle to Legal and General, without consent.

As outlined in "Other default arrangements" in section 2, during the first quarter of 2020 the Trustee wrote to members who were invested in some of the inadvertent defaults, to ask them to confirm whether they wished to remain invested as they were, or otherwise their pots would be moved to the main default arrangement, the BGPS Drawdown Lifestyle. The only members the Trustee did not write to were members fully invested in the two alternative lifestyle strategies, the BGPS Annuity Lifestyle and the BGPS Cash Lifestyle.

The Trustee reviewed the way in which the transfer was to be conducted.

The transition costs and risks were mitigated by:

- Appointing a project manager at Buck;
- Working closely with Legal & General to ensure completion of the transition;
- The Trustee analysing the membership groups and making decisions based on the circumstances of each group, as, for instance, some members were invested in both a self-select fund and a lifestyle strategy;
- Carrying out the transition on different dates throughout March 2020 for different membership cohorts;
- The transfer being carried out on the Legal and General investment platform; and
- Regular monitoring of the reinvestment process to minimise out of market risk.

The transition costs were £4,680.90 on a transfer of £12,234,029.04 (i.e. 0.038% of the funds moved).

The Trustee is satisfied that this bulk transfer was conducted efficiently to mitigate the costs and risks for members as far as practicable and was conducted in a timely manner. There were no known errors or issues created as a result of the transfer.

## **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 has reviewed the structure of the funds used within the default arrangement, the BGPS Drawdown Lifestyle, and other investment options.

The Trustee has considered the various risks to which the Scheme is exposed, and details of its policy on the management of the key investment-related risks can be found in the SIP on page 3. The safe custody of the Scheme's assets is delegated to professional custodians, selected and monitored by the pooled funds providers. The role of the custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee therefore believes that the current structures are appropriate for members when compared to other possible structures.

The changes made by the Trustee to the inadvertent defaults in the last year did not materially affect the security of the assets.

The Trustee takes the security of assets into account when selecting and monitoring the funds used by the Scheme.

## 6 Trustee knowledge

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Section 247 and 248 of the Pensions Act 2004 requires that each Trustee Director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally;
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as trustee director, sufficient knowledge and understanding of the law relating to pensions and trusts and the relevant principles relating to funding and investment of the assets of occupational pension schemes; and
- Be able to demonstrate that their combined knowledge and understanding, together with available advice from their advisers, enables them to properly exercise their functions as Trustee Directors.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee's current practices to maintain and develop their level of knowledge and understanding of matters relating to the Scheme are:

- There is a structured induction process for newly appointed Trustee Directors, which includes one-to-one training from the legal and actuarial advisers. Newly appointed Directors are asked to complete the Pensions Regulator's "Trustee Toolkit" within 6 months of becoming a Trustee Director;
  - The "Trustee Toolkit" is a free, online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes. The Trustee Toolkit includes a series of online learning modules and downloadable resources developed to help trustees meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004 and therefore required by law.
- Ongoing training is provided to ensure that Trustee Directors maintain a working knowledge of the Scheme's Trust Deed and Rules, the Scheme's Statement of Investment Principles as well as the investment concepts and principles relevant to the Scheme, contract documents in relation to administration of the Scheme and the law and legislation relating to pension schemes and trusts, as well as working knowledge of documents setting out Trustee policies;
- Trustee Directors are encouraged to undertake further study and qualifications which support their work as Trustee Directors;
- The Trustee Directors have an annual 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 to confirm and identify any gaps in their knowledge and skills; and
- The Trustee Directors also receive quarterly "hot topics" from their advisers covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's advisers raise any changes in governance requirements and other relevant matters as

they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings and DC Sub Committee meetings if they are material.

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. The SIP was last reviewed on 16 June 2019 and it was signed on 23 September 2020.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit, with the exception of John McFaull who joined the Trustee Board in June 2020, and is currently going through the induction process. Trustee Directors are required to complete the Trustee Toolkit within 6 months of joining the Board.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date.

DC matters are dealt with by a DC Sub Committee, to ensure sufficient time is dedicated to DC matters. Four DC Sub Committee meetings were held over the reporting period. The DC Sub Committee reports back to the full Trustee Board at quarterly Trustee meetings.

There is a professional Trustee on the Board. Advisers attend all Trustee meetings and Sub Committee meetings. The professional Trustee and the advisers provide input and explanations or training on matters as they are discussed. This ensures that the Trustee receives "on the job" training.

The Trustee Directors are confident that they have sufficient knowledge and understanding of the relevant principles relating to the funding of occupational pension schemes. The Trustee has received training on defined benefit funding during the triennial valuation for the defined benefit section of the Scheme. The Trustee notes this is more relevant to the defined benefit section of the Scheme, rather than the defined contribution section which this Statement reports on.

A training day to review gaps in Trustee knowledge and understanding, as well as Trustee effectiveness was planned for 15 June 2020. This was postponed due to the Coronavirus pandemic. However, the Trustee will use a questionnaire to carry out an annual evaluation of the Trustee Directors' knowledge and to help to identify training needs before the end of the next reporting period.

The Trustee will also carry out an annual evaluation of the performance and effectiveness of the Trustee Board as a whole, measured against the objectives in the Scheme's business plan.

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 by completing an annual self-assessment against the DC Code. They periodically receive training on the Trust Deed and Rules and the balance of powers within the Scheme. Reviews of the Trust Deed and Rules and balance of powers have both been undertaken at the 17 June 2019 Trustee training day. The Trustee does not undertake these reviews yearly but it considers both with its advisers as part of Trustee meeting and sub committee meetings.

During the period covered by this Statement, the Trustee received training on the following topics:

<b>Date</b>	<b>Topic</b>	<b>Aim/benefit to the Trustee and to members</b>	<b>Trainer</b>
<b>11 June 2019 (DC Sub Committee meeting)</b>	Disclosure of transaction costs and new Chair's Statement requirements	To update the Trustee on new requirements that affected the 2019/20 Chair's Statement, including compliance and ensuring that the required information was requested from investment managers. Members benefit from greater disclosure of costs and a more detailed and informative Chair's Statement.	Hymans Robertson
<b>17 June 2019 (Trustee Training Day)</b>	21 <sup>st</sup> Century Trusteeship ( <i>whole Trustee Board; this training was previously delivered in 3 parts at DC Sub Committee meetings in the year 2018/19</i> )	To enhance Trustee Directors' knowledge of the current legislative and Scheme requirements. The Trustee was made aware of the standards expected by the Pensions Regulator and members can be confident that these standards are adhered to.	Hymans Robertson
<b>17 June 2019 (Trustee Training Day)</b>	Member behaviour at retirement and DC market update	To monitor that the default lifestyle, as well as the alternative investment options are in line with member behaviour at retirement. The Trustee was made aware of new products that were available in the DC market and members can be confident that the options being made available by the Trustee are in line with market developments.	Hymans Robertson
<b>17 June 2019 (Trustee Training Day)</b>	Trust Deed and Rules and Balance of powers	To provide a recap to the Trustee of the key powers in the Trust Deed and Rules and whether they are exercised by the Trustee or the Company. Trustee Directors benefited from an awareness of the powers that they have in possible future scenarios. Members can be confident the Trustee Directors are aware of their responsibilities.	Pinsent Masons
<b>24 October 2019 (DC Sub Committee meeting)</b>	Presentation from Legal and General including Environmental, Social and Governance ("ESG") considerations and the use of the L&G WorkSave Master Trust during retirement	To inform the Trustee of Legal and General's approach to ESG, and how they engage with companies to ensure they met best practice standards. The Trustee benefited from a better understanding of Legal and General's practices and the funds they have available. To provide an insight into how members could stay invested in Legal and General funds post-retirement, within their Master Trust. Members can be confident the Trustee is up-to-date with the latest market offerings from its investment platform provider.	Legal and General
<b>20 February 2020 (DC Sub Committee meeting)</b>	The new Statement of Investment Principles and disclosure requirements	To inform the Trustee of the new SIP and disclosure requirements coming into force on 1 October 2020. Members can be confident the Scheme meets with the new requirements.	Mercer
<b>20 February 2020 (DC Sub Committee meeting)</b>	Pension and Savings Lifetime Association ("PLSA") Standards	To inform the Trustee of the standards launched by the PLSA and help the Trustee determine how best to help members reach their retirement targets.	Hymans Robertson

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

The Trustee periodically reviews the appointment of its advisers. The Trustee last reviewed its advisors in the first quarter of 2018. Over the course of the next Scheme year, the Trustee will also review the effectiveness of its advisers, in particular the Competition and Markets Authority objectives for the investment consultants.

The Trustee undertook the following reviews during the last year:

<b>Date</b>	<b>Review of</b>
<b>11 June 2019 (DC Sub Committee meeting)</b>	The annual training plan including considerations of the current practices to maintain and develop Trustee knowledge and understanding.
<b>24 October 2019 (DC Sub Committee meeting)</b>	The DC annual business plan and the DC objectives, which enables the Trustee Directors to ensure they receive appropriate training over the year, in line with Scheme objectives.
<b>26 November 2019 (Trustee meeting)</b>	The Competition and Markets Authority's requirements for setting objectives for the Scheme's investment consultants, and subsequently set such objectives.

The Trustee Directors are satisfied that during the last Scheme year they have:

- Taken effective steps to maintain and develop their knowledge and understanding; and
- Ensured they received suitable advice

Over the next reporting year, the Trustee Directors will be:

- Making the following changes to develop their knowledge and understanding by:
  - Carrying out an assessment to confirm and identify any gaps in their knowledge and skills;
  - Carrying out a Trustee Effectiveness Review;
- Ensuring they receive suitable advice during the next year by:
  - Reviewing the effectiveness of their advisers.

The Trustee Directors are satisfied that the combination of their knowledge and understanding together with access to suitable advice enabled them to properly exercise their duties during the period covered by this Statement.

## 7 Complete and future actions

During the last year the Trustee undertook the following (over and above “business as usual”):

- Improved Value for Members by:
  - *working closely with Buck, the Scheme administrator, to improve performance against Service Level Agreements;*
  - *reviewing and simplifying the annual benefit statements to make them more member-friendly.*
  - *Reviewing the AVCs held with Utmost Life (formerly Equitable Life) and deciding that they would be transferred to the Legal and General investment platform in Q2 2020 where members can access greater value for money via the BGPS lifestyle strategies and self-select funds;*
- Arranged for the publication of this Statement, together with the Statement of Investment Principles in a publicly searchable location on the internet with a note of this location provided in the annual benefit statements;
- Organised a Trustee Training Day on 17 June 2019 which covered training on both defined benefit and defined contribution topics;
- Taken steps to rectify some of the inadvertent defaults which were created as a result of the December 2018 transition where members who were not invested in the default arrangements were mapped to like-for-like funds without consent;
- Set objectives for its investment consultants following an order from the Competition and Markets Authority;
- Undertook a site visit to Buck to check that the Trustee was satisfied with the administration procedures and policies that are currently in place, as well as to ensure that the administration fees reflected the quality of service; and
- Updated the Statement of Investment Principles to reflect the new requirements on Responsible Investment which came into force on 1 October 2019.

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

- Reorganise the postponed Trustee Training Day, which was meant to be held on 15 June 2020, but was postponed due to the coronavirus pandemic;
- Work with L&G to widen their reporting on responsible investing and how they vote at shareholder meetings;
- An annual high-level review on the suitability of the Scheme’s investment options;
- Improve Value for Members by:
  - *Reviewing the communications strategy, including the effectiveness of written communications, as well as the member portal and the Baxi pensions website;*
  - *Reviewing the other historic AVCs;*
  - *Transferring members’ AVCs held with Utmost Life (formerly Equitable Life) and Clerical Medical to the Legal and General investment platform in Q2 2020; and*
  - *Considering offering members the option to transfer to the Legal and General WorkSave Master Trust at retirement. This may be of interest to some members who wish to access their pension savings on a flexible basis during their retirement.*
- Seek feedback from members on:
  - *The investment changes implemented in December 2018; and*

- *The take-up of self-select funds.*

- Undertake a Trustee Effectiveness Review;
- Carry out an assessment to confirm and identify any gaps in its knowledge and skills;
- Rectify some the remaining inadvertent defaults, with the exception of the BGPS Annuity Lifestyle and the BGPS Cash Lifestyle which will continue to be inadvertent defaults until the next full investment review due by July 2021 (see section 2 for more details);
- Update the SIP to reflect further regulatory requirements on Responsible Investment, due by 1 October 2020. This includes a requirement to explain how it incentivises investment managers to align their investment strategy with the Trustee's policies; and
- Complete their first implementation statement describing how they have followed the policies in the Scheme's SIP.

The Trustee believes that this work will help you get the best out of our Scheme.

## 8 Missing information

The Trustee has been unable to obtain information on:

- The charges and transaction costs for the following investment options during the period covered by this Statement:
  - Historic AVCs held with Scottish Friendly;
  - Historic AVCs held with Clerical Medical – some charges and transaction costs for a slightly different reporting period are available; and
  - Historic AVCs held with Utmost Life (formerly Equitable Life) – charges and transaction costs are, however, available for a period from 1 January 2019 – 31 December 2019.

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

- The Trustee requested the information from the providers and is continuing to chase for responses;
- The Trustee is pressing for greater disclosure of costs and charges for the With Profits Funds; and
- The Trustee has asked for reasons why the missing information is not available and a timescale for when it will be available.

The missing information listed above means that the Trustee has not been able to compare the funds' charges and costs for the historic AVC funds against other schemes and providers.

The Trustee also notes the following limitations:

- At this time, limited data is available on industry-wide comparisons of pension schemes and the Trustee 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. The amount of comparative information available should improve over the next few years.

**Appendix 1**  
Statement of Investment Principles

# THE BAXI GROUP PENSION SCHEME

## Statement of Investment Principles – September 2020

### 1. Introduction

Baxi Group and Newmond Pension Trustees Limited, the Trustee of the Baxi Group Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of:

- The Pensions Act 1995, as amended by the Pensions Act 2004;
- The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015;

and subsequent legislation (“the Act”). The Statement also seeks to take into account the principles underlying the (Myners) Code of Best Practice for pension scheme investment, which has been endorsed by the Government and the National Association of Pension Funds.

The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments.

The strategic management of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by its investment objectives. The day to day management of the assets is delegated to professional investment managers.

As required under the Act, the Trustee has consulted a suitably qualified person in having obtained written advice from its Investment Consultant, Mercer Limited. The Trustee, in preparing this Statement, has also consulted the principal employer, Baxi Heating UK Limited (“the Company”).

Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme’s Actuary.

The advice received and arrangements implemented are, in the Scheme’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

### 2. Structure of the Scheme

The Scheme has both Defined Benefit (“DB”) and Defined Contribution (“DC”) Sections. The DC Section is a qualifying scheme for auto-enrolment purposes. The DC Section also includes the Additional Voluntary Contribution (“AVC”) assets. There are some legacy with-profit AVC arrangements for which further details can be found in Section 5.

### 3. DB Section

#### 3.1. Investment Objectives and Strategy

##### 3.1.1. Investment Objectives

The Trustee's main investment objective is to ensure members' benefits are payable as they fall due and to act in the best interest of the members and beneficiaries. Within this framework the Trustee has agreed a number of objectives to help guide them in the strategic management of the assets. These objectives are as follows.

- To optimise returns from investments over the long term which are consistent with the long term assumptions of the Actuary in determining the funding of the Scheme
- To control the various funding risks to which the Scheme is exposed
- To achieve fully funded status on a low-risk liability basis
- To gradually de-risk to a low-risk investment strategy over time
- To provide a suitable range of investment funds for AVC contributions

##### 3.1.2. Investment Strategy

The Trustee recognises that the investment strategy should take account of the Scheme's current funding level, liability profile and long term funding objectives. The allocation to return seeking assets may be reduced from time to time through taking advantage of any significant outperformance in the market, through consultation with both the Trustee and Company.

The Trustee has determined, based on written expert advice from Mercer, a benchmark mix of asset types and ranges within which the investment managers may operate. This is set out in the table below and the Trustee believes this strategy is appropriate for dealing with the risks outlined in section 4.

<b>Asset Class</b>	<b>Scheme Benchmark</b>
	<b>%</b>
<b>Liability Driven Investment ("LDI") Portfolio*</b>	<b>65.0</b>
<b>Growth Portfolio</b>	<b>35.0</b>
UK Equities	2.0
Global Equities	11.0
Property	2.0
Diversified Growth Fund	20.0
<b>Total</b>	<b>100.0</b>

\* consisting of corporate bonds (32.5%), leveraged and unleveraged gilts and index linked gilts, swaps and cash

Following the implementation of the LDI portfolio the Trustee's objective is to hedge the inflation and interest rate exposure up to the Scheme's funding level on the Technical Provisions Basis (c. 90% on the gilts +0.86% basis at the point of implementation). As the Scheme's funding level improves, the Trustee will aim to increase the hedge ratio.

To achieve its objectives, the Scheme will be progressively rebalanced until it reaches a benchmark allocation of 15% growth assets, 85% liability matching assets subject to

meeting certain triggers as detailed in the De-Risking Principles document agreed in August 2019. The De-Risking Plan agreed assumes that the benchmark allocation to growth assets reduces by 3% of total assets at each 31 March (assuming the funding level is in line with the recovery plan from the 2018 Actuarial Valuation) with the final move to 15% growth assets being achieved by the 2024 valuation. De-risking will be accelerated if certain funding level triggers are hit and after consultation with the Company.

The Trustee reviewed the De-Risking Plan as part of the April 2018 actuarial valuation process taking account of expected returns at that date.

### 3.2. Risk Management and Measurement

There are various risks to which the Scheme is exposed. The Trustee's policy on the management of the key investment-related risks is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities. These are mainly the strategic investment risks. The key strategic investment risks inherent in the current investment strategy are as follows:
  - Equity market risk (the risk that equity valuations fluctuate in an uncorrelated way with the value of the liabilities)
  - Interest rate risk (the risk that the assets do not move in line with the value placed on the Scheme's liabilities in response to changes in interest rates)
  - Inflation risk (similar to interest rate risk but concerning inflation)
  - Credit risk (the risk that payments due to corporate bond investors may not be made)
- The strength of the Company's covenant is important and the Trustee is very aware of the risk posed by the correlation between the strength of the covenant and the funding level of the Scheme.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position.
- Recognising the above risks, the Trustee regularly reviews its stated objectives to ensure they continue to reflect the Scheme's liabilities, contribution levels and Trustee's attitude to risk. In turn, the Trustee regularly seeks investment advice to ensure that the Scheme's investment strategy reflects its objectives. This Statement is reviewed at least every three years to ensure that the stated investment objectives and strategic asset mix remain appropriate and immediately following any significant change in strategy or objectives.
- The Trustee recognises the risks that may arise from the lack of diversification of investments and aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. This principle of diversification extends across asset classes and within asset classes. Pooled fund vehicles will be used, where appropriate, to ensure appropriate diversification at stock level.

- The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk and believes that the risk is such that a passive manager should be employed to manage the majority of the Scheme's assets. As the Trustee believes that active management can still add value on a selective basis, active management is employed via the Diversified Growth Funds. This view also complements the Trustee's desire to ensure diversification within the Scheme's investment strategy.
- There is currency risk inherent in investment in overseas equity markets within the Diversified Growth Funds
- The documents governing the investment manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes outside their mandate without the Trustee's prior consent. The managers are regulated by the Financial Conduct Authority ("FCA").
- The safe custody of the Scheme's assets is delegated to professional custodians, selected and monitored by the pooled fund providers.
- The Trustee recognises the importance of managing operational risks, such as counterparty risk. It works with its advisers and investment managers to understand the extent of such risks but delegates the day to day control of such risks to the managers.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure), the Trustee will look to ensure that the assets of the Scheme are predominantly invested on regulated markets, or robustly collateralised if over-the-counter vehicles are used.

Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets periodically with the Scheme's managers and receives regular reports from all the investment managers and Mercer.

Should there be a material change in the Scheme's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered and will update this document accordingly.

### 3.3. Day-to-Day Management of the Assets

The Trustee delegates the day to day management of the Scheme's DB assets to professional investment management firms who are regulated by the FCA. The Trustee has taken steps to satisfy themselves that their managers have the appropriate knowledge and experience for managing the Scheme's investments and are carrying out the work competently.

The Trustee has determined a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

### 3.3.1. Investment Structure

The Trustee is responsible for the appointment and removal of the Scheme's investment managers. The following investment managers are employed by the Scheme for management of the main Scheme assets:

- Legal & General Investment Management Limited ("LGIM")
- Schroder Investment Management Limited ("Schroders")
- BlackRock Investment (UK) Management Limited ("BlackRock")
- CBRE Global Investment Partners ("CBRE")

The Scheme's equity and bond assets are invested in passive, index-tracking funds. The Scheme employs active management in the areas where the Trustee believes the managers can truly add value above the market return after fees have been paid or where the managers are provided with a specialist mandate in relation to the management of assets (LGIM, BlackRock and Schroders Diversified Growth Funds and CBRE Property).

The Scheme uses specialist managers who the Trustee believes are experts in their particular field. The manager structure and the role of each of the Scheme's investment managers are set out in the table below.

<b>Manager</b>	<b>Mandate</b>	<b>Scheme Benchmark %</b>
<b>LDI Portfolio</b>		<b>65.0</b>
LGIM	Passive Corporate Bonds	32.5
LGIM	Gilts/Swaps/Cash	32.5
<b>Growth Portfolio</b>		<b>35.0</b>
LGIM	UK Equities	2.0
LGIM	Global Equities	11.0
LGIM / Schroders / BlackRock	Diversified Growth Fund	20.0
CBRE	Property	2.0*
<b>Total</b>		<b>100.0</b>

\*The property mandate managed by CBRE is in the process of being liquidated with final liquidation proceeds expected to be returned to investors by Q1 2021.

The role of each individual Investment Manager and their respective benchmarks are set out below. Various limitations and restrictions apply to the Scheme's investment managers. The purpose of these restrictions is to ensure diversification and suitability of investments. Full details can be found in the individual Investment Management Agreements.

### 3.3.2. LGIM (c. 84% of the Scheme's Assets)

LGIM manages a UK and Global equity portfolio, a DGF portfolio and a LDI portfolio on behalf of the Scheme.

#### UK and Global Equity Portfolio

LGIM are required to perform in line with the relevant benchmark index as follows:

<b>Fund</b>	<b>Benchmark</b>
UK Equity Index	FTSE All-Share
Global Equity Index	FTSE World ex UK

#### LDI Mandate

The Trustee appointed LGIM to manage an LDI mandate in order to manage the Scheme's exposure to interest rate and inflation risks. The mandate allows for investment in a range of LGIM funds in order to meet the Scheme's objectives set out below.

- LGIM AAA-AA-A Bonds Over 15 Year Index
- LGIM Single Stock Bond funds
- LGIM Matching Plus Gilt funds
- LGIM Matching Plus Swap funds
- LGIM Sterling Liquidity Cash funds

The aim of the mandate is to hedge the inflation and interest rate exposure up to the Scheme's funding level on the Technical Provisions Basis (gilts +0.86%). This hedging target is reviewed regularly and is currently set to hedge 90% of the Scheme's interest rate and inflation exposure based on the liability profile from the 31 March 2018 actuarial valuation.

For the avoidance of doubt, target hedge ratios allow for the hedging contribution provided by the Scheme's corporate bond assets held within the LDI mandate.

For the passive LGIM AAA-AA-A Bonds Over 15 Year Index Fund, LGIM are required to perform in line with the relevant benchmark index as follows:

<b>Bond Section</b>	<b>Benchmark</b>	<b>Expected Tracking Error % p.a.</b>
AAA-AA-A Bonds Over 15 Year Index	Markit iBoxx GBP Non-Gilts ex BBB 15 Yr+	±0.5 (for 2 years out of 3)

#### LGIM Diversified Fund

LGIM has been appointed by the Scheme to manage the Diversified Growth Fund ("DGF"). The DGF will invest in a broad range of asset classes to provide long-term investment growth. The long-term expected rate of return of the DGF is anticipated to be broadly similar to that of a developed market equity fund, but the diversified nature of the fund means that it is expected to have less equity exposure than a pure equity fund and perform differently in adverse equity market conditions, however may perform less strongly than a pure equity fund in benign or positive market conditions.

### 3.3.3. Schroders (c.7.0% of the Scheme's Assets)

Schroders has been appointed by the Scheme to manage the Diversified Growth Fund. The Fund has a target return objective of RPI + 5% per annum, with a tracking error of two thirds of equity market volatility.

### 3.3.4. BlackRock (c.7.0% of the Scheme's Assets)

BlackRock has been appointed by the Scheme to manage a Diversified Growth Fund. The Fund aims to achieve a return on investment, over the medium term, through a combination of capital growth and income which targets the Bank of England's Base Interest Rate +3.0% (net of fees).

### 3.3.5. CBRE (2.0% of the Scheme's Assets)

CBRE has been appointed by the Scheme to manage a property fund. The Fund aims to return a net 8% p.a. return over the life of the fund.

## 4. DC Section

### 4.1. Investment Objectives and Strategy

#### 4.1.1. Investment Objectives

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits / retirement income streams.

The Trustee also recognises that members may not believe themselves qualified to take investment decisions. As such the Trustee makes available a default investment option to members, which is described in section 4.1.4.

The Trustee has received advice with regards to member needs throughout their working lives for the purposes of the default option and a set of strategic objectives have been agreed reflecting these needs, which are also described in section 4.1.4.

#### 4.1.2. Investment Strategy

In choosing the Scheme's investment options, it is the policy of the Trustee to consider:

- A full range of asset classes, including alternative asset classes;
- The suitability of different styles of investment management and the need for investment manager diversification;
- The suitability of each asset class within a defined contribution scheme; and
- The need for appropriate diversification.

The Trustee makes available a range of funds which they believe provide appropriate choices for members' different saving objectives, risk profiles and time horizons.

#### 4.1.3. Lifestyle Strategies

The Scheme offers members the option of having their funds invested in three lifestyle strategies, where members' funds are invested in higher risk assets, such as equities and multi-asset funds when members are further from retirement, before switching into funds designed to broadly match an income drawdown benefit (with an allowance for tax free cash), fixed annuity (with an allowance for tax free cash) or cash.

For members who are planning a flexible approach to drawing benefits at retirement or planning to use income drawdown during their retirement, the BGPS Drawdown Lifestyle switches into diversified growth and a small proportion of cash during the de-risking phase.

For members planning to take cash at retirement, the BGPS Cash Lifestyle switches into diversified growth and then to cash during the de-risking phase and the self-select range offers a fund, investing in cash deposits and other short-term interest bearing securities providing a high degree of (but not complete) capital security.

For members planning to buy an annuity at retirement, the BGPS Annuity Lifestyle switches into bonds and cash during the de-risking phase and the self-select fund range offers funds investing in longer-dated bonds, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

The portfolios and funds used across the three lifestyle strategies are summarised in the following table.

<b>Lifestyle strategy</b>	<b>Components</b>
BGPS Drawdown Lifestyle (the "Default Option")	<b>Growth Phase:</b> BGPS Equity Fund <b>Consolidation Phase:</b> BGPS Diversified Growth Fund <b>Pre-Retirement Phase:</b> BGPS Pre-Drawdown Fund
BGPS Annuity Lifestyle (a technical Default)	<b>Growth Phase:</b> BGPS Equity Fund <b>Consolidation Phase:</b> BGPS Diversified Growth Fund <b>Pre-Retirement Phase:</b> BGPS Pre-Retirement Fund, BGPS Cash Fund
BGPS Cash Lifestyle (a technical Default)	<b>Growth Phase:</b> BGPS Equity Fund <b>Consolidation Phase:</b> BGPS Diversified Growth Fund <b>Pre-Retirement Phase:</b> BGPS Cash Fund

*\*see Appendix A and Appendix B for the lifestyle matrices and details of the funds used.*

#### 4.1.4. The Default Option

The Scheme provides a Default Option – the BGPS Drawdown Lifestyle - because:

- It is believed that a significant proportion of the membership are either unengaged in or unable to decide where their DC savings should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a Default Option;
- The Trustee believes that the presence of an effective Default Option will help deliver better outcomes for members at and into retirement.

The main objective of the Default Option is to provide better member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

The Trustee believes that a lifestyle strategy is an appropriate default option. The principal objectives of the Default Option are:

- To manage the principal investment risks faced by an average member during their membership of the Scheme;
- To avoid making a decision for a member as to how they will use their savings at retirement. This will mean the fund invests in a blend of bonds, cash and diversified growth at retirement;
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 20 years from retirement;
- To progressively invest in funds which are expected over the long-term to deliver good returns relative to inflation, while seeking to control the level of volatility in fund values compared to equities, for members 10 to 20 years from retirement whose DC savings are expected by then to have grown to a size where the value at risk is material.
- During the last 10 years before retirement, to increasingly invest in lower risk funds which are expected to help mitigate fluctuations in the sizes of both members' fund values and the benefits members are likely to take at retirement.

Full details of the Default Option are provided in Appendix A.

In choosing what is believed to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, the level of replacement income that members are likely to require and the likely return on investment after the deduction of charges payable on the funds used by the default option.

The Trustee selected a lifestyle strategy targeting flexibility at retirement as the Default Option as it reflects the option that is considered most likely to be appropriate for the majority of members who are unable to decide how they wish to take their retirement benefits or might take their benefits in a combination of ways and at different points in time. This option has a similar structure for members that would target income drawdown. The design of the default also incorporates advice with regards to member needs, by which the following strategic investment objectives have been set and agreed:

	<b>Return Requirements</b>	<b>Expected Risk Requirements</b>
<b>Growth Phase</b>	CPI + 4-5% p.a.	c.15-20% p.a.
<b>Consolidation Phase</b>	CPI + 3% p.a.	c.10-12% p.a.
<b>Pre-Retirement Phase</b>	CPI + 1-2% p.a.	c.4-6% p.a.

Further to the investment risks noted under 4.2, the Default Option manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the Default Fund, the Trustee has explicitly considered the trade-off between risk and expected returns.

Assets in the Default Option are invested in a manner that aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole. The majority of the Scheme's assets are invested in regulated products that trade mainly on regulated markets. The risks and financially material considerations identified by the Trustee in Section 7 of this Statement are also applicable to the Default Fund. The Trustee's policy in relation to the managers used by the Scheme are outlined in Section 8 and are also applicable to the Default Fund.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership might behave at retirement, the Trustee believes that the current default option is appropriate and they will continue to review this regularly, and more strategically at least triennially, or after significant changes to the Scheme's demographic, if sooner.

#### 4.1.5. Principles in Relation to the Additional Default Options

In April 2018 the Department for Work and Pensions ("DWP") amended the Occupational Pension Schemes (Charges and Governance) Regulations 2015, effective from 6 April 2018. In particular, the DWP's guidance in association with new regulations clarified the government's policy in relation to default investment arrangements in the receiving scheme when a member with self-select funds is mapped into new funds which most closely reflect their original choice. This applies when mapping member savings between arrangements but also to in-scheme changes.

The Scheme made a number of in-scheme changes to members' investment options in 2018. As part of these exercises and consistent with investment consultancy and legal advice, previous self-select funds were mapped across to new funds without members' consent. As a result, additional 'technical' default options were created. In the first half of 2020, the Trustee undertook an exercise to consolidate the majority of the additional default options into the BGPS Drawdown Lifestyle (the current default option). However, the Trustee agreed to retain the following as additional defaults:

- BGPS Annuity Lifestyle
- BGPS Cash Lifestyle

In March 2020, the Threadneedle Property Fund, the underlying fund used by the BGPS Property Fund, was suspended and no assets could be in/disinvested into/from the Fund. Consistent with investment consultancy and legal advice, it was

decided that all ongoing contributions into the BGPS Property Fund would be invested in the BGPS Cash Fund until the suspension on the underlying fund used by the BGPS Property Fund is lifted. As a result, an additional 'technical' default option was created with monies being invested in the BGPS Cash Fund without members' consent.

The following applies to the Additional Default Options, as specified:

### **Overall Trustee's Aims and Objectives**

To provide members with a fund that is a suitable replacement, having considered expected risk and return, for one that has been removed previously either on a permanent or temporary basis.

### **The realisation of investments**

The Trustee has considered these manager and mandate appointments noting that the selection, retention and realisation of assets within the pooled funds are delegated to the respective investment manager in line with the mandates of the funds.

### **Aims, Objectives and Policies for the BGPS Annuity Lifestyle and BGPS Cash Lifestyle Options**

The aims for these two lifestyle options and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To match decisions made by these members previously as to how they will use their savings at retirement.

*The options invest in a blend of bonds and cash for the BGPS Annuity Lifestyle and cash for the BGPS Cash Lifestyle at retirement to align with the targets of prior strategy choices.*

- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members over 20 years from retirement.

*The equity funds invest primarily in equity securities issued by companies. The strategy invests generally in shares of companies domiciled in, or exercising a significant part of their economic activity in, developed markets and emerging markets. The BGPS Diversified Growth Fund invests in a range of asset classes including equities, bonds and a number of alternative asset classes to achieve long-term capital growth.*

- To progressively invest in funds which seek to control the level of volatility in fund values compared to equities for members 10 to 20 years from retirement, whose DC savings are expected by then to have grown to a size where the value at risk is material.

*Both strategies start de-risking from equities into less volatile assets, such as diversified growth, bonds and cash, from 20 years to retirement. This de-risking seeks to control the level of fund volatility in the run up to retirement to help with a view to meeting specific outcomes.*

## Aims, Objectives and Policies for the BGPS Cash Fund

The aims of the BGPS Cash Fund, and the ways in which the Trustee seeks to achieve these aims, are detailed below:

- To offer an option for members to reduce investment risk.

*The returns from the cash fund are expected to be less volatile by nature of these price movements from these asset classes. Members can use these funds as an option to reduce risk.*

### Risk in relation to the Additional Default Options

The Trustee has explicitly considered the trade-off between risk and expected returns for the funds offered to members. Risk is not considered in isolation, but in conjunction with expected investment returns and retirement outcomes for members.

In selecting the funds that are classified as additional defaults, the Trustee considers the liquidity of the investments in the context of the likely needs of members. The Trustee has considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustee considers and how they are managed.

Risk	How it is managed	How it is measured
<b>Inflation Risk</b>	<p>The funds underlying the growth portfolio of the BGPS Cash Lifestyle and BGPS Annuity Lifestyle lifestyles invest in a diversified range of securities which are considered likely to grow in excess of inflation.</p> <p>This risk does not specifically apply to the BGPS Cash Fund. The BGPS Cash Fund objective is to provide protection to members.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.</p>
<b>Pension Conversion Risk</b>	<p>The BGPS Cash Lifestyle and BGPS Annuity Lifestyle options have a specific objective to target a different method of taking benefits.</p> <p>The BGPS Cash Fund objective is to provide protection to members and is suitable for a member who is close to retirement and targeting cash at retirement.</p>	<p>The Trustee makes available funds that would be appropriate for different retirement choices at retirement.</p>

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
<b>Market Risk</b>	The underlying assets for each fund are invested in a diversified range of securities which are considered likely to increase in value over longer time horizons.	Monitors the performance of the funds on a quarterly basis.
<b>Currency Risk</b>	The funds underlying the growth portfolio of the BGPS Cash Lifestyle and BGPS Annuity Lifestyle invest in UK equities and currency-hedged overseas equities. Within the consolidation portfolios, any currency decisions are at the discretion of the DGF managers.  This risk does not specifically apply to the BGPS Cash Fund as all holdings are Sterling based.	Monitors the performance of funds on a quarterly basis.  Considers the impact of the movements in foreign currencies relative to pound sterling.
<b>Liquidity Risk</b>	Funds all have daily liquidity.	Units may be realised quickly if required from daily dealing funds.
<b>Environmental, Social and Governance Risk</b>	The Trustee's policy on ESG risks is set out in Section 7 of this Statement.	Review of ratings but changes will not be driven by these ratings.

The above items are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they expect to retire. The risks and financially material considerations identified by the Trustee in Section 7 of this Statement and the Trustee's policy in relation to the managers used by Scheme as outlined in Section 8 of this Statement are also applicable to the Additional Default Options.

#### 4.1.6. Alternative Lifestyle Options

Alternative lifestyle options are offered for those members who believe that the risk profile of the Default Option is not appropriate to their needs, but otherwise do not want to take an active part in selecting where contributions are invested.

The alternative lifestyle options manage the principal risks faced by members during their membership, but target taking their retirement benefits as cash at retirement or purchasing an annuity.

Some members will be invested in the alternative lifestyle options (BGPS Cash Lifestyle and BGPS Annuity Lifestyle) due to mappings without consent, as outlined in Section 4.1.5 of this Statement.

#### 4.1.7. Self-select Fund Range

The self-select fund range allows members who do not wish to invest in one of the lifestyle strategies some flexibility in their selection of funds. The self-select fund range covers a broader spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their DC savings more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

The range of self-select funds is set out in Appendix C.

#### 4.1.8. White Labelled Funds

The Trustee has established white labelled funds to enable them to implement combinations of funds in a blended fund structure and simplify the process of replacing or changing managers if required in future. White-labelling is also expected to simplify the process of selecting funds for members to encourage engagement.

The white labelled funds are constituents of the lifestyle strategies and are offered as self-select options.

Rebalancing of the underlying funds will be considered annually by the Trustee. There is no automatic or compulsory rebalancing within the blends.

### 4.2. Risk Management and Measurement

The Trustee has considered risk from a number of perspectives. The principal risks that members face, along with the policies and actions taken by the Trustee to mitigate these, are as follows:

- **Risk within Default** - The risk that the investment profile of the default option is unsuitable for the requirements of some members.
  - *The Trustee offers alternative lifestyle options and a range of self-select options for members to choose from to set strategies reflecting their own risk preferences, if required.*
- **Inflation Risk** - The risk that the investment return over members' working lives does not lead to adequate savings at retirement and, consequently, provides an inadequate income in retirement.
  - *For members further from retirement, the lifestyle strategies invest in return-seeking assets during the growth phase, which are expected to produce returns well in excess of inflation over the longer term. These funds are also included in the self-select range.*
- **Conversion Risk** - The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.
  - *Each of the lifestyle strategies seek to track, as closely as possible, the method by which members invested in the strategies are expected to take their benefits upon conversion – mitigating the impact of any increase in costs.*

- **Volatility/Market Risk** - The risk that unfavourable market movements in the years just prior to retirement can lead to a substantial reduction in the anticipated level of retirement benefits.
  - *The lifestyle strategies de-risk over time and members who are closer to retirement will be invested in a combination of lower risk assets. The component funds are also included in the self-select range.*
- **Performance Risk** -The risk that the investment manager underperforms the chosen benchmark.
  - *The Trustee offers a range of passively managed funds which are expected to have a lower chance of underperforming. The Trustee will regularly monitor fund performance focusing on this risk.*
- **Counterparty Risk** - The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.
  - *This risk is managed by investing in a range of pooled funds that offer suitable counterparty protection. Exposure is kept to a minimum for efficient portfolio management purposes.*
- **Liquidity Risk** - The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.
  - *The pooled funds that members are invested in are all daily dealing and units may be realised quickly if required.*
- **Environmental, Social and Governance Risk** - The risk that ESG factors, which can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance, are not taken into account.
  - *This is delegated to external investment managers.*
  - *The Trustee's policy on ESG risks is set out in Section 7 of this Statement.*

#### 4.3. Day-to-Day Management of the Assets

The fund range offered to members is accessed through the investment fund platform provided by LGIM.

Day-to-day management of the assets is delegated to professional investment managers who are all authorised and regulated. The range of funds underlying the options offered to members incorporates funds from a number of investment managers.

The Trustee assesses the continuing suitability of the Scheme's investment managers on a periodic basis. The Trustee's investment adviser provides support and advice in monitoring the investment managers, both in the form of written reports or attendance at meetings as required by the Trustee.

The Trustee will review the appointment of any investment manager for any reason they consider appropriate.

## **5. AVCs**

The Trustee is responsible for the investment of Additional Voluntary Contributions (“AVCs”) paid by members. The Trustee reviews performance on a regular basis and takes advice on their suitability. Assets in respect of members’ Additional Voluntary Contributions are invested with LGIM. The funds available and performance objectives are in line with the wider DC arrangements as set out in Section 4. The Scheme also has a number of legacy with-profits holdings with Utmost Life (managed by Clerical Medical), Phoenix Life and Prudential Assurance funds.

## **6. Advisors and Scheme Governance**

### **6.1. Custodian**

The role of a custodian is to ensure the safe keeping of the assets and facilitate all transactions entered into by the appointed investment managers. Where the Scheme’s assets are managed via pooled funds, the custody arrangements for the Scheme’s investments have been made by each Investment Manager with their preferred custodian.

### **6.2. Actuary**

The Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The latest actuarial valuation was performed as at 31 March 2018 by the Scheme Actuary. Mr Matthew Jones of Mercer Limited is the appointed Scheme Actuary.

### **6.3. Investment Consultant**

Whilst the day-to-day management of the Scheme’s assets is delegated to investment managers, all other investment decisions including strategic asset allocation and selection and monitoring of investment managers are based on advice received from the Investment Consultant. Mercer Limited has been appointed for this purpose.

### **6.4. Monitoring the Scheme’s Investment Managers**

The Trustee retains the assistance of Mercer as investment advisor to provide assistance with monitoring the investment managers and on strategic investment issues.

## **7. Policy on Socially Responsible Investment and Corporate Governance**

The Trustee believes that environmental, social, and corporate governance (“ESG”) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments. The Trustee has advised the Scheme’s investment managers that they will be expected to vote the Scheme’s

UK shares in accordance with the guidelines set down by the UK Stewardship Code and UK Corporate Governance Code and encourages them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds. The investment managers have full discretion to vote in favour of actions outside these guidelines but will be expected to report to the Trustee with an explanation of its actions. The Trustee will review the investment managers' policies and engagement activities (where applicable) on an annual basis.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee will consider the ESG ratings provided by Mercer and how each investment manager embeds ESG factors into its investment process. When appointing managers, the Trustee will also consider how the investment manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. The Trustee reviews the ESG rating provided by Mercer as part of the Scheme's regular quarterly performance reporting. A change in ESG rating does not mean that the fund will be removed or replaced automatically. Managers will also be expected to report on their own ESG policies as and when requested by the Trustee.

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

The Trustee does not take into account members' views on non-financial matters, including their ethical views, in the selection, retention and realisation of investments, given the difficulty in determining members' views and applying these to a single Scheme investment strategy. However, this position will be reviewed over time.

The DC Section of the Scheme currently offers members a specialist sustainable fund for members as a self-select option.

The Employer's views on ESG matters will be accounted for, noting that they may not necessarily result in a change in the Trustee's investment decisions

### **Members' financial interests**

The Trustee has requested that the investment managers have the financial interests of the members as their first priority when choosing and reviewing investments.

## **8. Manager Arrangements**

### **8.1. Aligning Manager Appointments with Investment Strategy**

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected.

The Trustee will seek guidance from the investment consultant, where appropriate, for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

The Trustee will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to review the appointment.

## 8.2. Evaluating Investment Manager Performance

The Trustee receives investment manager performance reports on a quarterly basis, which present performance information over 3 months, 1 year and 3 years (where available). The Trustee reviews the absolute performance and relative performance against a suitable index used as the benchmark, and against the manager's stated target performance objective (over the relevant time period) on a net of fees basis.

The Trustee's focus on long term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager or the team responsible;
- There is a change in the underlying objectives or process of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

## 8.3. Portfolio Turnover Costs

Within the DB section, the majority of the investment manager performance objectives are set net of all fees and costs and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some MiFID II reporting from their investment managers which they aim to review on an annual basis to understand the full costs incurred. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The Trustee monitors portfolio turnover costs for the DC and AVC arrangements on an annual basis as part of its value for members assessment.

## 8.4. Manager Turnover

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. The Trustee will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The basis on which the manager was appointed changes materially (eg manager fees or investment process);  
The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

## **9. Realisation of Assets**

In general, the Scheme's investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments. The Scheme's investment managers have responsibility for generating cash as and when required for benefit outgoings.

## **10. Fee Structures**

The Investment Consultant is typically remunerated on a time cost basis, i.e. reflecting the time spent on a particular issue. However, where it is possible to pre-determine the scale of a particular project, it will work to an agreed fixed fee.

### *DB Section*

The Investment Managers levy fees based on a percentage of the value of the assets under management.

### *DC Section*

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

The Scheme is a qualifying scheme for auto-enrolment purposes. The Trustee monitors the compliance of the Default Option with the charge cap introduced by the Pensions Act 2014, which applies from April 2015.

Details of the investment manager fees can be found in Appendix C.

## **11. Compliance with this Statement**

The Trustee will review this Statement regularly on the advice of Mercer. The Trustee will monitor compliance with this Statement annually, or after any significant change in strategy or manager structure and obtain written confirmation from the investment managers that it has given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment manager has done so in accordance with regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005.

## **12. Review of this Statement**

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Company which it judges to have a bearing on the stated Investment Policy.

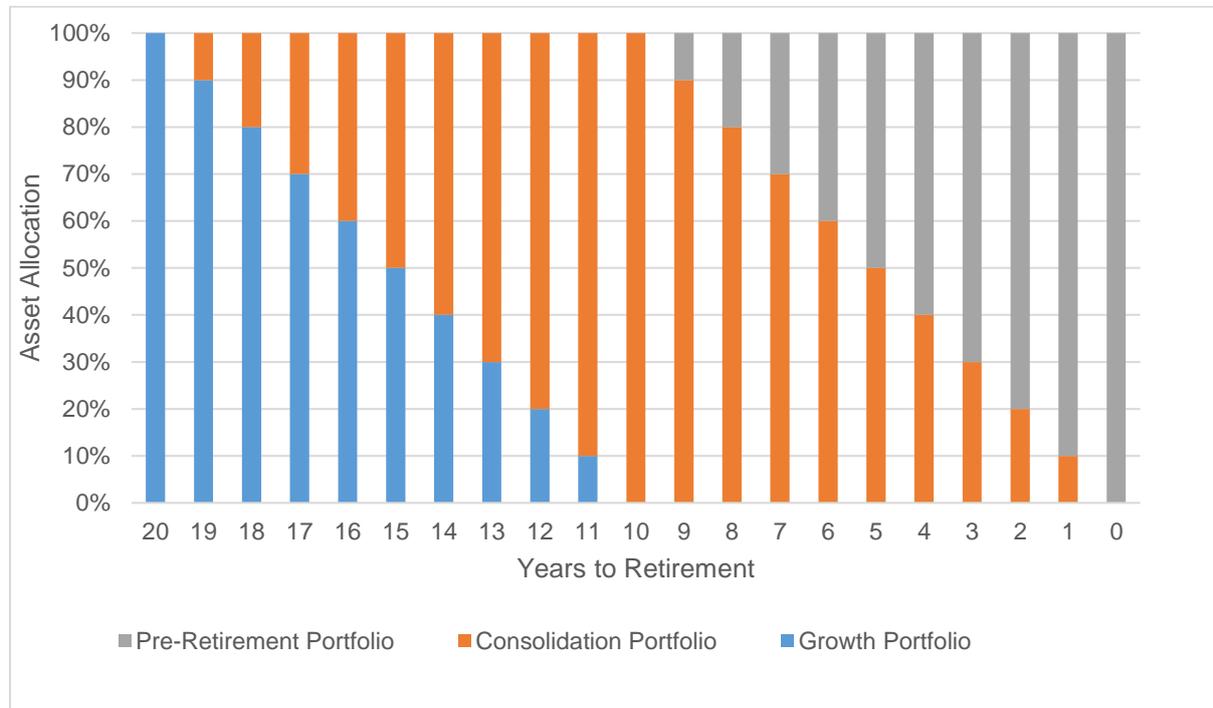
This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be undertaken in consultation with the Company.

The Chair's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year and will require this Statement to be appended each year.

## Appendix A – Default Option – BGPS Drawdown Lifestyle

The Default Option targets a blend of bonds and cash to represent an income drawdown.

The chart below shows the lifestyling structure in the 20 years prior to retirement.



Years to retirement

The current underlying fund and managers used by the Default Lifestyle are detailed below.

	Fund Name	Current Underlying Fund(s)
<b>Growth Portfolio</b>	BGPS Equity Fund	20% LGIM UK Equity Fund 80% LGIM World (ex UK) Developed Equity Index - GBP Hedged
<b>Consolidation Portfolio</b>	BGPS Diversified Growth Fund	50% LGIM Diversified Growth Fund 50% Insight Broad Opportunities Fund
<b>Pre-Retirement Portfolio</b>	BGPS Pre-Drawdown Fund	60% LGIM Retirement Income Multi Asset 15% LGIM AAA-AA-A Corporate Bond All Stocks – Index 25% LGIM Sterling Liquidity

The Trustee has considered risks in relation to the default from a number of perspectives. The Trustee considers how these risks are managed and monitored. The approach taken for the default does not differ from that of the Scheme. The considered risks are in relation to what the Trustee considers 'financially material considerations'. The Trustee believes the appropriate time horizon for which to assess these considerations within should be viewed at

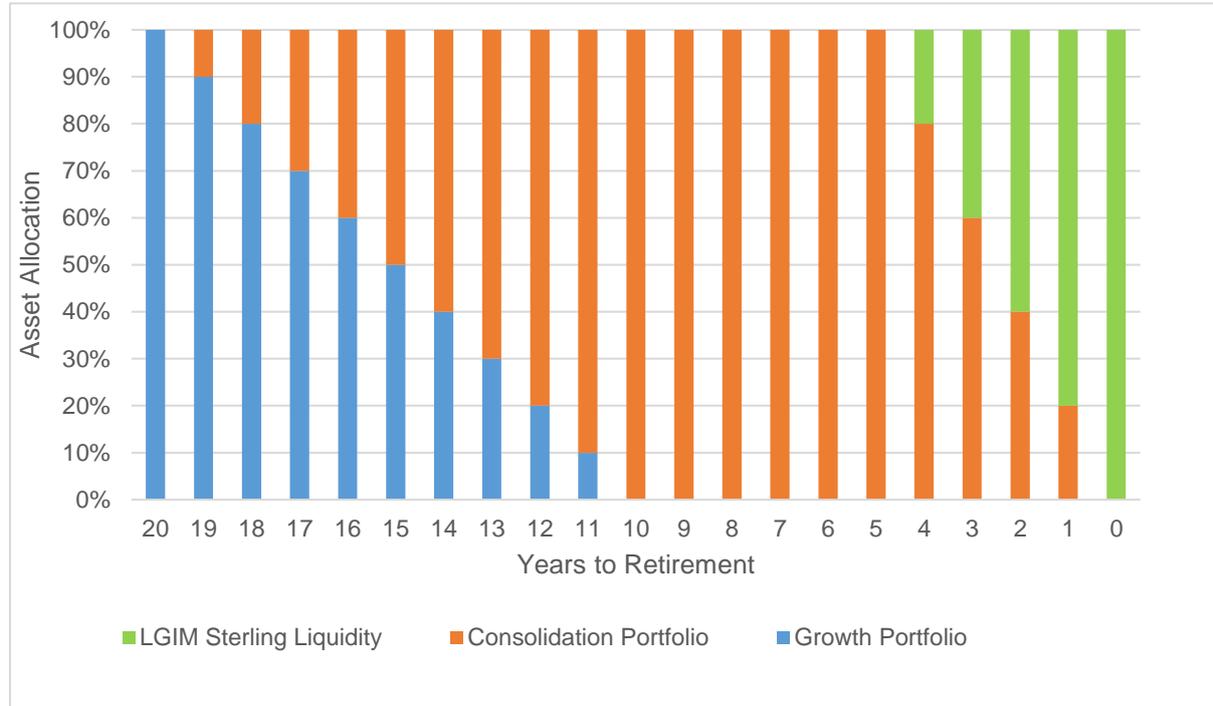
a member level. This will be dependent on the member's age and their Selected Retirement Age. It is partly for this reason that the default investment option is a lifestyle strategy.

Taking into account the demographics of the Scheme's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the default strategy outlined in this document is appropriate.

In order to ensure this remains appropriate the Trustee will undertake a review of the default investment option, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

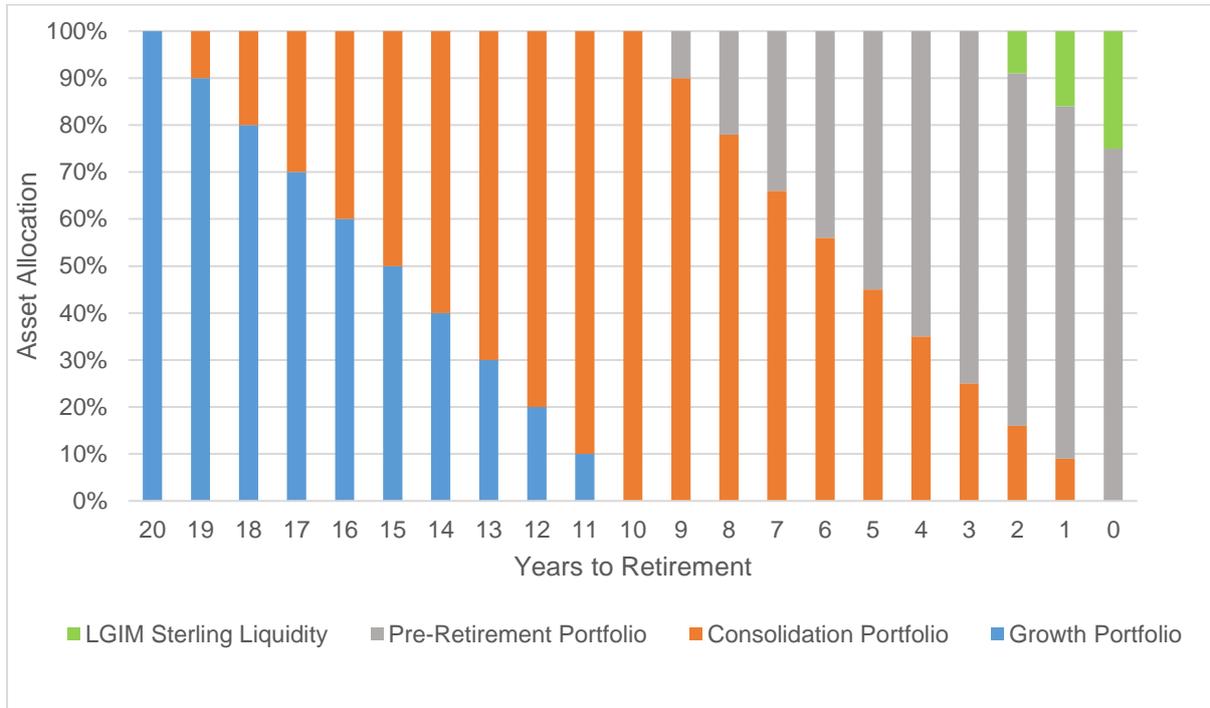
## Appendix B – Alternative lifestyle options / Additional Default Option

The BGPS Cash Lifestyle option targets a cash fund on retirement. The lifestyling structure is shown below.



	Fund Name	Current Underlying Fund(s)
<b>Growth Portfolio</b>	BGPS Equity Fund	20% LGIM UK Equity Fund 80% LGIM World (ex UK) Developed Equity Index - GBP Hedged
<b>Consolidation Portfolio</b>	BGPS Diversified Growth Fund	50% LGIM Diversified Growth Fund 50% Insight Broad Opportunities Fund
<b>Pre-Retirement Portfolio</b>	BGPS Cash Fund	100% LGIM Sterling Liquidity

The BGPS Annuity Lifestyle option targets an investment of mainly bonds with some cash at retirement to represent the purchase of an annuity at retirement. The lifestyling structure is shown below.



	Fund Name	Current Underlying Fund(s)
<b>Growth Portfolio</b>	BGPS Equity Fund	20% LGIM UK Equity Fund 80% LGIM World (ex UK) Developed Equity Index - GBP Hedged
<b>Consolidation Portfolio</b>	BGPS Diversified Growth Fund	50% LGIM Diversified Growth Fund 50% Insight Broad Opportunities Fund
<b>Pre-Retirement Portfolio</b>	BGPS Pre-Retirement Fund BGPS Cash Fund	75% LGIM Pre-Retirement Fund 25% LGIM Sterling Liquidity

## APPENDIX C - Self-select fund range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles.

Fund Name	Objective	Benchmark / Comparator	TER (p.a.)
BGPS Sterling Hedged World Equity Fund <i>(LGIM World ex UK Developed Equity Index – GBP Hedged fund)</i>	The fund aims to track the performance of the benchmark (less withholding tax where applicable) - GBP Hedged to within +/-0.5% p.a. for two years out of three.	FTSE Developed World (ex UK) Index - GBP Hedged	0.13%
BGPS Global (50:50) Equity Fund <i>(LGIM Global Equity Fixed Weights (50:50) Index Fund)</i>	The fund aims to provide diversified exposure to the UK and overseas equity markets.	Composite of 50/50 distribution between UK and overseas	0.11%
BGPS World Equity Fund <i>(LGIM World (ex UK) Developed Equity Index Fund)</i>	The fund aims to track the performance of the FTSE Developed World (ex UK) Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.	FTSE Developed World (ex UK) Index	0.15%
BGPS UK Equity Fund <i>(LGIM UK Equity Index Fund)</i>	The fund aims to track the performance of the benchmark (less withholding tax where applicable) to within +/-0.25% p.a. for two years out of three.	FTSE All-Share Index	0.06%
BGPS Emerging Markets Fund <i>(LGIM World Emerging Markets Equity Index)</i>	The fund aims to track the performance of the FTSE Emerging Index (less withholding tax where applicable) to within +/-1.5% p.a. for two years out of three.	FTSE Emerging Index	0.30%
BGPS Islamic Equity Fund <i>(LGIM HSBC Islamic Equity Index)</i>	The fund aims to create long-term appreciation of capital through investment in a well-diversified portfolio of equities listed worldwide, as defined by the relevant world index, in a manner that is consistent with the principles of the Shariah law.	Dow Jones Islamic Titans 100 Index	0.35%
BGPS Diversified Growth Fund <i>(blend of 50% LGIM Diversified Growth Fund and 50% Insight Broad Opportunities Fund)</i>	Composite of underlying funds	Composite of underlying funds	0.50%

BGPS Property Fund <i>(LGIM PMC Threadneedle Property)</i>	The fund aims to generate total returns (from income and capital appreciation) that are above its benchmark, over rolling 3 year periods.	AREF/IPD UK Quarterly Property Fund Index (weighted average)	0.72%
BGPS Future World Fund <i>(LGIM Future World)</i>	The fund aims to replicate the performance of the benchmark. The anticipated annual tracking error, in normal market conditions, relative to the index is +/-0.60% in two years out of three.	FTSE All-World ex CW Climate Balanced Factor Index	0.20%
BGPS Corporate Bond Fund <i>(LGIM AAA-AA-A Corporate Bond All Stocks – Index)</i>	The fund aims to track the performance of the Markit iBoxx £ Non-Gilts (ex-BBB) Index to within +/-0.5% p.a. for two years out of three.	Markit iBoxx £ Non-Gilts (ex-BBB) Index	0.07%
BGPS Index Linked Gilts Fund <i>(LGIM All Stocks Index-Linked Gilts Index)</i>	The fund aims to track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	FTSE Actuaries UK Index-Linked Gilts All Stocks Index	0.06%
BGPS Gilts Fund <i>(LGIM All Stocks Gilts Index)</i>	The investment objective of the fund is to track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	FTSE Actuaries UK Conventional Gilts All Stocks Index	0.06%
BGPS Pre-Retirement Fund <i>(LGIM Pre-Retirement)</i>	The fund aims to improve potential outcomes for investors likely to purchase traditional fixed annuities.	Composite of gilts and corporate bond funds	0.15%
BGPS Retirement Income Fund <i>(LGIM Retirement Income Multi Asset)</i>	The fund aims to provide long-term investment growth up to and during retirement, and to facilitate the drawdown of retirement income.	Bank of England base rate +3.5% p.a.	0.36%
BGPS Cash Fund <i>(LGIM Sterling Liquidity)</i>	The aim of the fund is to provide diversified exposure and a competitive return in relation to 7 Day LIBID.	7 Day LIBID	0.13%

Source: LGIM and investment managers.

## Appendix 2

### Table of funds and charges

#### 2a Default arrangement – the BGPS Drawdown Lifestyle

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

Fund	ISIN *	Charges **		Underlying Fund	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
BGPS Equity Fund	GB00B8ZVK362	0.125%	£1.25	LGIM World (ex UK) Developed Equity Index Fund - GBP Hedged	0.047%	£0.47
				LGIM UK Equity Index		
BGPS Diversified Growth Fund	GB00B8ZVK818	0.513%	£5.13	LGIM Diversified Fund	0.085%	£0.85
				Insight Broad Opportunities Fund		
BGPS Pre Drawdown Fund	GB00B8ZVL220	0.275%	£2.75	LGIM Retirement Income Multi Asset Fund	0.011%	£0.11
				LGIM AAA-AA-A Corporate Bond All Stocks Index		
				LGIM Sterling Liquidity		

Source: Legal & General

## 2b Lifestyle options outside the default arrangement – considered inadvertent defaults

The two lifestyle options below are considered inadvertent defaults over the reporting period.

The funds' charges (as "Total Expense Ratios") and transaction costs in the last Scheme year used in the BGPS Annuity Lifestyle option were:

Fund	ISIN *	Charges **		Underlying Fund	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
BGPS Equity Fund	GB00B8ZVK362	0.125%	£1.25	LGIM World (ex UK) Developed Equity Index Fund - GBP Hedged	0.047%	£0.47
				LGIM UK Equity Index		
BGPS Diversified Growth Fund	GB00B8ZVK818	0.513%	£5.13	LGIM Diversified Fund	0.085%	£0.85
				Insight Broad Opportunities Fund		
BGPS Pre-Retirement Fund	GB00B8ZVL774	0.151%	£1.51	LGIM Pre-Retirement Fund	-0.020%	£-0.20
BGPS Cash Fund	GB00B8ZVLL12	0.135%	£1.35	LGIM Sterling Liquidity Fund	-0.037%	£-0.37

Source: Legal & General

The funds' charges (as "Total Expense Ratios") and transaction costs in the last Scheme year used in the BGPS Cash Lifestyle option were:

Fund	ISIN *	Charges **		Underlying Fund	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
BGPS Equity Fund	GB00B8ZVK362	0.125%	£1.25	LGIM World (ex UK) Developed Equity Index Fund - GBP Hedged	0.047%	£0.47
				LGIM UK Equity Index		
BGPS Diversified Growth Fund	GB00B8ZVK818	0.513%	£5.13	LGIM Diversified Fund	0.085%	£0.85
				Insight Broad Opportunities Fund		
BGPS Cash Fund	GB00B8ZVLL12	0.135%	£1.35	LGIM Sterling Liquidity Fund	-0.037%	£-0.37

Source: Legal & General

**2c Self-select funds – considered inadvertent defaults with the exception of the BGPS Islamic Equity Fund and the BGPS Future World Fund**

All funds below are considered inadvertent defaults with the exception of the BGPS Islamic Equity Fund and the BGPS Future World Fund, as no members were switched into these funds without consent.

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

Fund	ISIN *	Charges **		Underlying Fund	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
BGPS UK Equity Fund	GB00B8ZVLN36	0.091%	£0.91	LGIM UK Equity Index	-0.019%	-£0.19
BGPS World Equity Fund	GB00B8ZVLT97	0.153%	£1.53	LGIM World (ex UK) Developed Equity Index Fund	-0.008%	-£0.08
BGPS Sterling Hedged World Equity Fund	GB00B8ZVLQ66	0.133%	£1.33	LGIM World (ex UK) Developed Equity Index Fund - GBP Hedged	0.066%	£0.66
BGPS Emerging Markets Fund	GB00B8ZVK925	0.222%	£2.22	LGIM World Emerging Markets Equity Index	0.004%	£0.04
BGPS Global (50:50) Equity Fund	GB00B8ZVLX34	0.128%	£1.28	LGIM Global Equity Fixed Weights (50:50) Index Fund	0.012%	£0.12
BGPS Islamic Equity Fund	GB00B8ZVLG68	0.215%	£2.15	LGIM HSBC Islamic Equity Index	0.031%	£0.31
BGPS Diversified Growth Fund	GB00B8ZVK818	0.513%	£5.13	LGIM Diversified Fund	0.085%	£0.85
				Insight Broad Opportunities Fund		
BGPS Future World Fund	GB00B8ZVL550	0.209%	£2.09	LGIM Future World Fund	0.049%	£0.49
BGPS Pre-Retirement Fund	GB00B8ZVL774	0.151%	£1.51	LGIM Pre-Retirement Fund	-0.020%	-£0.20
BGPS Retirement Income Fund	GB00B8ZVL998	0.386%	£3.86	LGIM Retirement Income Multi Asset Fund	0.044%	£0.44
BGPS Gilts Fund	GB00B8ZVKL47	0.060%	£0.60	LGIM All Stocks Gilts Index	0.029%	£0.29
BGPS Index-Linked Gilts Fund	GB00B8ZVKJ25	0.050%	£0.50	LGIM All Stocks Index Linked Gilts Fund	0.110%	£1.10
BGPS Corporate Bond Fund	GB00B8ZVLZ57	0.065%	£0.65	LGIM AAA-AA-A Corporate Bond All Stocks Index	-0.048%	-£0.48
BGPS Property Fund	GB00B8ZVKD62	0.717%	£7.17	Threadneedle Property Fund (GBP)	0.002%	£0.02

BGPS Cash Fund	GB00B8ZVLL12	0.135%	£1.35	LGIM Sterling Liquidity	-0.037%	-£0.37
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Source: Legal & General

\* 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 ("OCE").

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

## 2d Legacy Additional Voluntary Contributions

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

Fund	ISIN *	Underlying Fund***	Charges **		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 With-Profits Fund ††	N/A	N/A	1.00%	£10.00	1.039%	£10.39
Equitable FTSE Tracker ††	GB00B61C0396	Aberdeen UK All Share Tracker Fund	0.50%	£5.00	0.026%	£0.26
Equitable Far Eastern ††	GB00BRJL7V21	Aberdeen Asia Pacific Equity Enhanced Index Fund	0.75%	£7.50	0.179%	£1.79
Equitable Managed ††	Composite	Composite	0.75%	£7.50	0.096%	£0.96
Equitable Pelican ††	GB00BRJL8531	Aberdeen UK Equity Enhanced Index Fund	0.75%	£7.50	0.295%	£2.95
Equitable European ††	GB00BRJL7X45	Aberdeen European Equity Enhanced Index Fund	0.75%	£7.50	0.208%	£2.08
Equitable International ††	GB00BRJL7Z68	Aberdeen World Equity Enhanced Index Fund	0.75%	£7.50	0.132%	£1.32
Equitable Fixed Interest ††	GB00BWK26S93	Aberdeen Sterling Government Bond Fund	0.50%	£5.00	0.107%	£1.07
Equitable Money ††	LU0966092990	Aberdeen Liquidity Fund (Lux) - Sterling Fund	0.50%	£5.00	0.008%	£0.08
Equitable CM Unitised With-Profit ††	N/A	N/A	0.50%	£5.00	Not available	Not available
Equitable North American ††	GB00BRJL8192	Aberdeen North American Equity Enhanced Index Fund	0.75%	£7.50	0.021%	£0.21

Equitable Property ††	GB00BTLX1F24	Aberdeen UK Property Fund	1.00%	£10.00	0.168%	£1.68
Phoenix LL Pension Traditional With Profits – V1 Fund	Requested	N/A	1.26%	£12.60	0.26%	£2.60
Scottish Friendly – With Profits	N/A	N/A	N/A	N/A	N/A	N/A
Clerical Medical UK Growth Pension (policy 67531)	GB0002042116	N/A	1.000%†	£10.00†	0.44% ††††	£4.40 ††††
Clerical Medical With Profits Funds††† (policy 67531)	GB0002038981 (Regular) GB0002039732 (Single)	N/A	1.000%†	£10.00†	0.22%	£2.20
Clerical Medical UK Index-Linked Gilt Pension (policy 67531)	GB0002040516	N/A	1.000%†	£10.00†	-0.01% ††††	-£0.10 ††††
Clerical Medical PP UK Equity Tracker Pn (policy 67531)	GB0005001242	N/A	1.000%†	£10.00†	0.01% †††††	£0.10 †††††
Clerical Medical Balanced Pension (policy 67531)	GB0002039955	N/A	1.000%†	£10.00†	0.20%	£2.00
Clerical Medical International Growth Pension (policy 67531)	GB0002040953	N/A	1.000%†	£10.00†	0.72%	£7.20
Clerical Medical International Growth Pension (policy 71732)	GB0002040953	N/A	0.495%†	£4.95†	0.72%	£7.20
Clerical Medical UK Growth Pension (policy 71732)	GB0002042116	N/A	0.495%†	£4.95†	0.44% ††††	£4.40 ††††
Clerical Medical Balanced Pension (policy 71732)	GB0002039955	N/A	0.495%†	£4.95†	0.20%	£2.00

Source: Equitable Life / Phoenix / Scottish Friendly / Clerical Medical

†Total Expense Ratio (“TER”) are not applicable to the above funds held with Clerical Medical. As a result, only “Annual Management Charges” have been used.

††The Total Expense Ratio (“TER”) and Transaction Costs figures given here are for the reporting period 01 January 2019 to 31 December 2019. The Trustee continues to request this information.

†††The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, it is not possible to determine the exact charges and costs borne by members. The charge quoted here is for the overall policy rather than the Clerical Medical With Profits Funds.

†††† The Transaction Costs figures given here are for the reporting period 1 February 2019 to 31 January 2020. The funds have their own reporting cycles and account year ends and as such transaction costs cannot be provided for the requested period.

††††† The Transaction Costs figures given here are for the reporting period 1 March 2019 to 28 February 2020. The funds have their own reporting cycles and account year ends and as such transaction costs cannot be provided for the requested period.

\* 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 a typical member on projected values in today's money at several times up to retirement for a selection of funds:

#### 3a For the default arrangement (the BGPS Drawdown Lifestyle)

For members initially aged 45 with a starting pot size of £23,800, an annual salary of £34,600 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	Before costs and charges £	After costs and charges are taken £
1	£108,909	£103,343
3	£99,298	£94,483
5	£89,677	£85,663
10	£66,045	£64,074
15	£43,810	£43,292
20	£23,800	£23,800

Source: Hymans Robertson

For members initially aged 22 with a starting pot size of £0, an annual salary of £20,000 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	Before costs and charges £	After costs and charges are taken £
1	£146,125	£135,399
3	£137,691	£128,040
5	£129,036	£120,568
10	£106,887	£101,662
15	£84,859	£82,305
20	£63,914	£62,643
25	£45,281	£44,585
30	£29,628	£29,303
35	£16,531	£16,421
40	£5,625	£5,611
43	£0	£0

Source: Hymans Robertson

### 3b For the alternative lifestyle options available to members

For members initially aged 45 with a starting pot size of £23,800, an annual salary of £34,600 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	BGPS Annuity Lifestyle Option		BGPS Cash Lifestyle Option	
	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £
1	£102,794	£98,176	£107,135	£101,290
3	£95,701	£91,453	£100,058	£94,725
5	£87,858	£84,216	£90,881	£86,454
10	£66,045	£64,074	£66,045	£64,074
15	£43,810	£43,292	£43,810	£43,292
20	£23,800	£23,800	£23,800	£23,800

Source: Hymans Robertson

For members initially aged 22 with a starting pot size of £0, an annual salary of £20,000 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	BGPS Annuity Lifestyle Option		BGPS Cash Lifestyle Option	
	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £
1	£137,467	£128,248	£143,857	£132,753
3	£132,464	£123,732	£138,873	£128,446
5	£126,317	£118,319	£130,836	£121,726
10	£106,887	£101,662	£106,887	£101,662
15	£84,859	£82,305	£84,859	£82,305
20	£63,914	£62,643	£63,914	£62,643
25	£45,281	£44,585	£45,281	£44,585
30	£29,628	£29,303	£29,628	£29,303
35	£16,531	£16,421	£16,531	£16,421
40	£5,625	£5,611	£5,625	£5,611
43	£0	£0	£0	£0

Source: Hymans Robertson

**3c For a selection of the self-select funds:**

For members initially aged 45 with a starting pot size of £23,800, an annual salary of £34,600 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	BGPS Emerging Markets Fund		BGPS Cash Fund		BGPS Property Fund	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
1	£125,502	£122,079	£78,192	£77,011	£118,052	£108,195
3	£111,399	£108,631	£72,377	£71,372	£105,380	£97,365
5	£98,206	£96,019	£66,589	£65,748	£93,441	£87,039
10	£68,932	£67,850	£52,220	£51,738	£66,562	£63,304
15	£44,352	£43,968	£37,968	£37,768	£43,505	£42,312
20	£23,800	£23,800	£23,800	£23,800	£23,800	£23,800

Source: Hymans Robertson

For members initially aged 22 with a starting pot size of £0, an annual salary of £20,000 and a total contribution of 9% p.a. (3% employee, 6% employer).

Years to retirement	BGPS Emerging Markets Fund		BGPS Cash Fund		BGPS Property Fund	
	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £	Before costs and charges £	After costs and charges £
1	£171,523	£163,048	£76,254	£74,442	£153,446	£131,373
3	£156,788	£149,438	£72,443	£70,790	£141,083	£121,745
5	£142,977	£136,635	£68,659	£67,159	£129,400	£112,543
10	£112,150	£107,873	£59,307	£58,159	£102,952	£91,294
15	£86,014	£83,260	£50,091	£49,252	£80,064	£72,365
20	£63,914	£62,251	£40,991	£40,416	£60,304	£55,539
25	£45,281	£44,370	£31,983	£31,625	£43,293	£40,615
30	£29,628	£29,202	£23,048	£22,858	£28,695	£27,413
35	£16,531	£16,286	£14,163	£14,090	£16,213	£15,767
40	£5,625	£5,606	£5,308	£5,297	£5,584	£5,527
43	£0	£0	£0	£0	£0	£0

Source: Hymans Robertson

## Assumptions

The assumptions used in these calculations were:

- The opening DC pot size for members within the Scheme is £23,800, which was the average pot size for members at 31 March 2020.
- A contribution in current day terms of £3,114 p.a., which was the average contribution (9%) using a salary of £34,600. This was the average salary for members at 31 July 2019 with an inflation increase of 2.5% applied and a real salary growth rate of 1%. The Scheme's administrator, Buck, were unable to provide the average pensionable salary at 31 March 2020;
- The nominal investment return for each fund above was:

Fund	Return % p.a.
BGPS Equity Fund	5.5%
BGPS Diversified Growth Fund	4.5%
BGPS Pre Drawdown Fund	3.5%
BGPS Pre-Retirement Fund	2.2%
BGPS Cash Fund	1.5%
BGPS Emerging Markets	5.5%
BGPS Property Fund	5.0%

- The rate of increase in costs and charges is 0% p.a.;
- The assumptions as used in the Statutory Money Purchase Illustrations included with members' benefit statements have otherwise been used;
- For funds where transaction costs over the reporting period were negative, the calculations assume no transaction costs for prudence.

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.