

# URENCO UK PENSION SCHEME – DEFINED CONTRIBUTION SECTION AND DEFINED BENEFIT SECTION AVC AND SHIFT PAY PLAN ARRANGEMENTS (COLLECTIVELY REFERRED TO AS THE “SCHEME”)

ANNUAL CHAIR’S STATEMENT FOR THE YEAR ENDING 5 APRIL 2019

PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES  
(SCHEME ADMINISTRATION) REGULATIONS 1996 (THE “REGULATIONS”)

## Summary and Contents

As Chair of the Trustee Board, I am pleased to present the Trustee’s statement of governance, covering the period 6 April 2018 to 5 April 2019. This has been my first full year in office and I have very much enjoyed working with my fellow Trustee Directors.

This statement covers the following parts of the Urenco UK Pension Scheme:

- the Defined Contribution section, and
- the Additional Voluntary Contribution (AVC) and Shift Pay Plan arrangements related to the Defined Benefit section of the Scheme.

As you will see, this statement is a reasonably formal document as there are certain aspects that must be included to meet legal requirements. In particular, I would like to draw attention to the following areas in relation to the **Defined Contribution section**:

- The Default Investment Arrangements, which are described in **Section 1**. This sets out the current default, including how the investments change as members approach their retirement age. We also note that we began a review of the default back in January and we expect to be able to let members know the outcome towards the end of 2019, or early in 2020.
- The processing of core financial transactions, which are described in **Section 2**. These relate to payments into the Scheme (such as contributions) and payments out of the Scheme (such as benefit payments to members) and we set out the measures taken to ensure that transactions are conducted in both a timely and accurate way.
- The costs and charges applied to members’ funds are described in **Section 3**. The UK pensions market is moving towards greater disclosure of costs and the Trustee advocates this improved transparency. **Section 4** develops this by setting out the potential impact that charges can have on a member’s fund. We are required to show projected pension pots before and after charges for a range of different funds and separate tables are included for the “typical” member as a younger member of the Scheme. We then assess the extent to which the Scheme provides value for members in **Section 5**.

In relation to the **AVCs** and **Shift Pay Plan**, we cover similar aspects, including

- **Section 6** with commentary on the fact that these sections of the Scheme do not have a default as such;
- **Section 7** on the processing of core financial transactions;
- **Section 8** with details of the costs and charges, developed in **Section 9** as to the potential impact of costs and charges on a member’s fund and commentary on value for members in **Section 10**.

Finally, **Section 11** provides details of some of the work and training that the Trustee Board has undertaken over the year. I am grateful to my fellow Trustee Directors for their diligence and commitment over the year. I look forward to working with them in the future with a view to helping our members to achieve good outcomes from the Scheme.

## Introduction and Governance Structure

I am pleased to present the Trustee's statement of governance, covering the period 6 April 2018 to 5 April 2019.

This statement describes how the Trustee has governed the URENCO UK Pension Scheme during the period. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This statement covers the following areas:

- The investment strategy relating to the Scheme's default investment arrangements;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme and the value for money provided to members;
- The Trustee's compliance with the statutory knowledge and understanding requirements.

As Chair of the Trustee Board, it is my pleasure to report to you on these areas in respect of the period 6th April 2018 to 5th April 2019, for the Defined Contribution ("DC") section and the Additional Voluntary Contributions ("AVC") and Shift Pay Plan funds, which are linked to the Defined Benefit ("DB") section.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisors can be obtained on-line at [www.unbiased.co.uk](http://www.unbiased.co.uk).

This statement will be published on a publicly available website and the information with regards to cost disclosures will be signposted in the annual benefit statements.

## Defined Contribution Section

### 1. Default Investment Arrangement

- 1.1 A copy of the Scheme's Statement of Investment Principles (SIP) covering the default investment arrangements is appended to this governance statement. The SIP has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The SIP covers our aims and objectives in relation to the default investment arrangements as well as our policies relating to matters such as risk and diversification. In addition to the default funds and the wider fund range, the SIP, and accompanying Investment Policy Implementation Document ("IPID"), covers alternate investment choices under the Scheme, covering a range of funds that our members can choose, which was designed with their needs in mind.
- 1.2 The performance of the default investment arrangement with Aegon is reviewed regularly; the Trustee considers the performance of all the Scheme investment funds on a quarterly basis.
- 1.3 The default investment arrangement follows a pre-set investment route that transitions members' savings gradually over the six years and nine months prior to the Selected Retirement Date (SRD) from 30% held in the Aegon BlackRock Aquila 30:70 Currency Hedged Global Equity Index fund and 70% held in the Aegon BlackRock Diversified Growth fund, to 75% held in the Aegon LGIM Pre Retirement fund and 25% held in the Aegon BlackRock Cash fund 3 months prior to retirement.
- 1.4 The default investment arrangement's growth phase invests predominantly in equities. Overall these investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility. Long-term returns in excess of earnings inflation are generally required for members to attain an adequate income in retirement.
- 1.5 As a member's invested fund grows, investment risk will have a greater impact on member outcomes. Also, falls in the values of equity investments could potentially inflict significant losses to members' savings at a time when they have insufficient years of accumulation remaining to recover from such losses, particularly if they choose to make early withdrawals from savings. Therefore, the Trustee believes that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the six year and nine-month period prior to a member's retirement date.



1.6 The investment strategy was last reviewed in detail in September 2016, having taken into account the membership profile and developments in the market since April 2015, when members had access to the new choices with regards to how they would like to access their retirement savings. At the conclusion of the review, the Trustee decided not to make any change to the investment strategy at the end of the review process. Over the last year, the Trustee has initiated a further review of the default investment strategy, along with the other investment choices. This review considered the following:

- Current Scheme status;
- Trustees objectives and beliefs;
- Review of asset classes and fund options; and
- Market intelligence and market trends.

Further details will be provided to members once the review is completed, expected to in late 2019 / early 2020.

## 2. Core Financial Transactions

2.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Having in place service level agreements (SLAs) with the administrator which cover all core administration processes. These SLAs are monitored on a regular basis by the Trustee, with the provider being asked to account for shortfalls in performance.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Maintaining and monitoring a Risk Register which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is monitored and reviewed on a regular basis.
- Appointing a professional firm to undertake an annual audit to confirm that contributions and benefit payments have been made in a timely manner and in line with the required timescales.

2.2 As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. This includes:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Transfers of members' assets between different investment options available in the Scheme; and
- Payments from the Scheme to, or in respect of, members.

2.3 Core transactions require liaising with the providers and investment managers. The Trustee has delegated the day-to-day investment management of the DC Section and Shift Pay Plan assets to underlying providers, Aegon and Prudential respectively. The AVC policies are held with Clerical Medical and Prudential. The remainder of this section relates to Aegon – further details on Clerical Medical and Prudential are included later in this Statement.

2.4 The Trustee receives administration reports produced by Aegon which are reviewed by the Trustee at each meeting, enabling them to monitor that the requirements for the processing of financial transactions are being met. Aegon are also invited to attend Trustee's meetings and reports are received to support their attendance.

2.5 The SLAs with Aegon sets out the approach (including timescales) regarding the transfer of members' assets into and out of the Scheme the transfer of members' assets between different investment options available in the Scheme and payments from the Scheme to, or in respect of, members. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements.

- 2.6 Performance against SLAs for work due between the periods of this statement ranged from 85% to 96% over the four quarters of the year, averaging at 91%. For part of the year, Aegon's performance against SLAs has fallen short of the Trustee's expectations, given that their prior performance has generally been good. Despite the reduction in performance levels, Aegon have reassured the Trustee that they prioritise work items that can have a financial impact on members and that they have recruited in order to address the higher demands being placed on their administration function.
- 2.7 The Trustee challenges Aegon further with regards to the processing of core financial transactions. Aegon are aware of the statutory deadlines for the processing of all member-related services, including core financial functions such as investment switches and benefit payments, and have confirmed that all core financial transactions over the year for the Scheme were invested on time and within with the statutory deadlines. The Trustee will continue to seek the relevant details to support effective monitoring of these processes.
- 2.8 The Trustee appoints an independent auditor to carry out an annual audit of the Scheme, including the material financial transactions that have taken place during the Scheme year. The auditors carry out spot checks to ensure that contributions to the Scheme or payments made by the Scheme are paid in accordance with the Scheme's rules.
- 2.9 The Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the period to which the Statement relates.
- 2.10 The Scheme's risk register details the key risks to Scheme members and is monitored and reviewed on at least an annual basis. The risk register sets out controls to mitigate the effects of these risks.

### **3. Charges and Transaction Costs**

- 3.1 As required by regulation 25 of the Administration Regulations, the Trustee is required to report on charges and transaction costs for the investments used in the default investment arrangements and its assessment as to the extent to which these charges and costs represent good value for members.
- 3.2 The levels of charges and transaction costs applicable to the default investment arrangements during the period are detailed in this section. In relation to transaction costs, we note that when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority ("FCA") has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain (on average) from trading activity, whilst a positive figure is effectively a cost from trading activity.
- 3.3 Charges relating to investment management are deducted from members' funds. The Scheme is used as a qualifying arrangement for auto enrolment and as such must comply with regulations on charge controls introduced from April 2015. Specifically, all of the default investment arrangements under the Scheme must have a total expense ratio equal to, or below, the charge cap of 0.75% p.a. of savings. The Trustee can confirm this threshold is adhered to.
- 3.4 The table below shows the annual management charge (AMC), the total expense ratio (TER) and the total transaction costs for each of the funds underlying the Scheme's default investment arrangements. The overall charge deducted from a member's fund, if in the default investment arrangements, will reflect the member's allocations to each of the underlying funds.

The transaction costs shown in the tables below were provided by Aegon and reflect transactions over the 2018 calendar year. The Trustee has asked that transaction costs relate to the Scheme year in future. Going forward Aegon have confirmed that the transactions costs will be available as at the Scheme year end date.



Fund	AMC %p.a.*	TER %p.a.*	Total Transaction Cost %p.a.**	Management Type
Aegon BlackRock Aquila 30:70 Currency Hedged Global Equity (BLK)	0.42	0.44	0.01	Passive
Aegon BlackRock Diversified Growth (BLK)	0.55	0.63	0.38	Active
Aegon LGIM Pre Retirement (BLK)	0.50	0.50	0.02	Active
Aegon BlackRock Cash (BLK)	0.30	0.33	0.02	Active

\* Data as at 31 March 2019. The TER includes the AMC plus additional expenses, which can change from year to year.

\*\* Data over the 2018 calendar year.

3.5 The table below shows the same charges and costs in each of the self-select funds. The overall charge deducted from a member's fund will reflect their allocations to each of the underlying funds.

Fund	AMC % p.a.*	TER %p.a.*	Total Transaction Cost %p.a.**	Management Type
Aegon BlackRock UK Equity Index (BLK)	0.35	0.36	0.09	Passive
Aegon BlackRock European Equity Index (BLK)	0.35	0.37	0.03	Passive
Aegon BlackRock US Equity Index (BLK)	0.35	0.36	-0.02	Passive
Aegon BlackRock Japanese Equity Index (BLK)	0.35	0.36	-0.08	Passive
Aegon BlackRock Pacific Rim Equity Index (BLK)	0.35	0.37	0.05	Passive
Aegon BlackRock Emerging Markets Equity Index (BLK)	0.60	0.66	-0.07	Passive
Aegon LGIM Global Equity Index 50:50 (BLK)	0.50	0.50	0.00	Passive
Aegon BlackRock World (ex UK) Equity Index (BLK)	0.35	0.36	0.01	Passive
Aegon BlackRock Index Linked Gilt (BLK)	0.35	0.36	-0.05	Passive
Aegon BlackRock Long Gilt (BLK)	0.35	0.35	-0.02	Passive
Aegon BlackRock UK Equity Optimum (BLK)	0.65	0.66	0.38	Active
Aegon Kames Ethical Equity (BLK)	1.00	1.04	0.89	Active
Aegon Russell World Equity (BLK)	1.15	1.31	0.22	Active
Aegon Standard Life GARS (BLK)	1.10	1.12	0.14	Active
Aegon BlackRock Property (BLK)	1.00	1.03	***	Active
Aegon Standard Life Corporate Bond (BLK)	0.60	0.62	0.05	Active

\* Data as at 31 March 2019. The TER includes the AMC plus additional expenses, which can change from year to year.

\*\* Data over the 2018 calendar year.

\*\*\* Aegon was unable to provide transaction costs in relation to the Aegon BlackRock Property fund. The provider is taking steps to ensure that this information is available in future and have confirmed that going forward, transaction cost data will be available as at the Scheme year end.

## 4. Impact of Costs and Charges

4.1 In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has based this on the average member age of 42, using an average pot size of members between age 40 and 45 of £48,000 and assumes an overall contribution level of 11%. An assumed average salary of members between age 40 and 45 of £60,000 has been used.

Projected Pot sizes in Today's Money (£)										
Year End	Most Popular Fund / Default Arrangement		Most Expensive Fund		Highest Growth		Lowest Growth		Cheapest Fund	
	DC Diversified Growth		Kames Ethical Equity		DC Aquila US Equity Index		DC Index Linked Gilt		DC Cash	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	55,844.19	55,281.23	56,092.95	55,010.53	56,092.95	55,891.02	54,102.14	53,907.38	54,102.14	53,914.57
2	63,879.70	62,664.85	64,422.77	62,087.00	64,422.77	63,983.76	60,144.75	59,736.06	60,144.75	59,751.13
3	72,111.21	70,152.31	72,996.39	69,230.04	72,996.39	72,283.37	66,128.41	65,487.10	66,128.41	65,510.71
4	80,543.47	77,745.08	81,820.95	76,440.27	81,820.95	80,795.14	72,053.69	71,161.53	72,053.69	71,194.33
5	89,181.41	85,444.62	90,903.78	83,718.32	90,903.78	89,524.50	77,921.16	76,760.37	77,921.16	76,802.99
10	135,635.97	125,597.33	140,464.61	121,148.46	140,464.61	136,634.81	106,410.96	103,655.52	106,410.96	103,755.97
15	188,038.90	168,653.99	197,715.41	160,372.47	197,715.41	190,082.32	133,537.87	128,806.41	133,537.87	128,977.77
20	247,151.86	214,824.62	263,849.37	201,476.31	263,849.37	250,719.51	159,367.08	152,326.17	159,367.08	152,579.59
23	286,193.46	244,114.72	308,358.51	227,078.24	308,358.51	290,949.98	174,267.66	165,699.38	174,267.66	166,006.65

### Notes:

- Salaries and price inflation are assumed to increase at 2.5% per year
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Starting pot size is assumed to be £48,000 and future contributions of 11% have been assumed
- Starting salary is assumed to be £60,000
- Values are illustrations only and are not guaranteed
- The projected growth rates assumed for each fund are as follows:
  - Aegon BlackRock Diversified Growth (Most Popular Fund): 1.43% per year net expected real return above inflation
  - Aegon Kames Ethical Equity (Most Expensive Fund): 1.00% per year net expected real return above inflation.
  - Aegon BlackRock Aquila US Equity Index (Highest Expected Growth): 2.57% per year net expected real return above inflation.
  - Aegon LGIM Index Linked Gilt (Lowest Expected Growth Fund): -1.34% per year net expected real return above inflation.
  - Aegon BlackRock Cash Fund (Cheapest Fund): -1.32% per year net expected real return above inflation.
- The Transaction Costs relate to the actual transaction costs incurred over the 2018 calendar year.



- 4.2 Due to diverse Scheme demographics, the Trustee has presented a further illustration below. This is based on a member of age 16 (the youngest member), using a starting pot size of £4,000 and a salary of £24,000 based on the average for the age band of members under 22. It also assumes an overall contribution level of 11% per annum.

Projected Pot sizes in Today's Money (£)										
Year End	Most Popular Fund		Most Expensive Fund		Highest Growth		Lowest Growth		Cheapest Fund	
	DC Diversified Growth		Kames Ethical Equity		DC Aquila US Equity Index		DC Index Linked Gilt		DC Cash	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	6,766.94	6,698.73	6,792.30	6,661.23	6,792.30	6,767.85	6,589.15	6,565.43	6,589.15	6,566.31
2	9,601.38	9,435.41	9,666.33	9,347.50	9,666.33	9,606.46	9,153.04	9,096.68	9,153.04	9,098.76
3	12,504.94	12,210.57	12,624.48	12,059.03	12,624.48	12,517.62	11,691.92	11,594.22	11,691.92	11,597.82
4	15,479.32	15,024.77	15,669.21	14,796.07	15,669.21	15,503.21	14,206.02	14,058.49	14,206.02	14,063.91
5	18,526.25	17,878.54	18,803.05	17,558.86	18,803.05	18,565.12	16,695.60	16,489.93	16,695.60	16,497.48
10	34,912.54	32,760.82	35,902.97	31,767.53	35,902.97	35,089.51	28,783.87	28,169.83	28,783.87	28,192.26
15	53,397.05	48,719.42	55,656.15	46,657.16	55,656.15	53,836.75	40,293.86	39,092.25	40,293.86	39,135.89
20	74,248.44	65,832.19	78,474.28	62,260.39	78,474.28	75,105.83	51,253.24	49,306.31	51,253.24	49,376.61
25	97,769.79	84,182.60	104,832.93	78,611.42	104,832.93	99,235.99	61,688.35	58,857.95	61,688.35	58,959.57
30	124,302.97	103,860.16	135,281.43	95,746.08	135,281.43	126,612.11	71,624.26	67,790.12	71,624.26	67,927.02
35	154,233.65	124,960.85	170,454.40	113,701.93	170,454.40	157,670.82	81,084.86	76,143.01	81,084.86	76,318.50
40	187,996.85	147,587.60	211,084.88	132,518.33	211,084.88	192,907.50	90,092.88	83,954.18	90,092.88	84,171.00
45	226,083.34	171,850.77	258,019.67	152,236.52	258,019.67	232,884.16	98,669.98	91,258.77	98,669.98	91,519.13
49	260,034.98	192,518.79	300,759.04	168,689.33	300,759.04	268,703.96	105,235.28	96,759.85	105,235.28	97,056.34

**Notes:**

- Salaries and price inflation are assumed to increase at 2.5% per year
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Starting pot size is assumed to be £4,000 and future contributions of 11% have been assumed
- Starting salary is assumed to be £24,000
- Values are illustrations only and are not guaranteed
- The projected growth rates assumed for each fund are as follows:
  - Aegon BlackRock Diversified Growth (Most Popular Fund): 1.43% per year net expected real return above inflation
  - Aegon Kames Ethical Equity (Most Expensive Fund): 1.00% per year net expected real return above inflation.
  - Aegon BlackRock Aquila US Equity Index (Highest Expected Growth): 2.57% per year net expected real return above inflation.
  - Aegon LGIM Index Linked Gilt (Lowest Expected Growth Fund): -1.34% per year net expected real return above inflation.
  - Aegon BlackRock Cash Fund (Cheapest Fund): -1.32% per year net expected real return above inflation.
- The Transaction Costs relate to the actual transaction costs incurred over the 2018 calendar year.

- 4.3 The Trustee acknowledges the requirement to publish these illustrations on a website and this Statement will be available in time for the deadline of seven months following the Scheme year end.

## 5. Value for Members

- 5.1 When assessing the charges and transaction costs which are payable by DC members, the Trustee is required to consider the extent to which these represent good value for members.
- 5.2 The Trustee with support from its advisors, Mercer Ltd, has undertaken a value for members ("VFM") assessment.
- 5.3 The Trustee concluded that it believes the DC section's overall benefits and options represent reasonable VFM in relation to the costs payable by members. The reasons underpinning this conclusion includes:
- Charges for the Schemes default investment arrangement are below the charge cap of 0.75% per year and the Aegon BlackRock Diversified Growth (which makes up 70% of the Scheme's growth phase) is comparatively cheap compared to alternate funds in the market, however a

number of active and passive funds, including the Aegon BlackRock 30:70 Currency Hedged Global Equity Index (which is also used during the Scheme's growth phase) are considered to be relatively expensive compared to comparable funds in the market.

- The performance of the funds making up the growth phase of the default investment arrangement have been in line with, or ahead of their benchmarks, although the Aegon BlackRock Diversified Growth fund has not met its target level of performance.
- The majority of funds used by the are rated by Mercer Ltd as having good prospects of achieving their objectives over the long term.
- The performance of the Scheme's passive funds over the period from inception to 31 March 2019 is acceptable compared with the benchmark set by the Trustee. A number of active funds (namely, Aegon Standard Life GARS, Aegon DC Property Fund, Aegon Russell World Equity Fund and the Aegon Kames Ethical UK Equity Fund) underperformed against their benchmarks and the target set by the Trustee over the one, three and five year periods ended 31 March 2019.

5.4 In other areas the assessment found that the Scheme offers good VFM across the range of additional features for members, including scheme governance.

5.5 Additionally, the Company pays for governance costs, together with various member communication, administration and advisory costs associated with operating the Scheme, which further enhances the value that members receive.

5.6 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes and the extent to which Aegon as administrator met its SLAs for the year; the communications delivered to members including on-line access to information, literature and modelling tools; and the quality of scheme governance.

5.7 As part of the review of the Scheme's investment strategy, the Trustee are considering carefully the level of charges applied to members' funds. In particular, the Trustee will be looking for the charges to reflect the increase in the size of the DC Section of the Scheme over the last few years, as well as its prospects for the future. The Trustee expects that these steps will improve the VFM that our members receive, and will be writing to members in late 2019 / early 2020 to outline the changes.

## **AVC and Shift Pay Plan funds linked to the Defined Benefit Section**

The Trustee commissioned a detailed AVC and Shift Pay Plan fund and performance reviews in 2015, and monitors the performance of these funds on an annual basis.

## **6. Default Investment Arrangement**

6.1 There is no requirement to operate a default strategy for the AVC and Shift Pay Plan investments. Members therefore invest their monies in any of the available funds, in the proportions they select, where appropriate.

6.2 At retirement, AVC and Shift Pay Plan members have the option of using their funds as additional tax free cash (up to the HMRC maximum) or can transfer them to the DB section in order to purchase additional DB benefits. The exchange is made on the current DB Section terms for cash commutation, or on pre agreed guaranteed terms in respect of certain elements of Shift Pay Plan Funds.

## **7. Core Financial Transactions**

7.1 The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties and within the sponsoring employer.
- Maintaining and monitoring a Risk Register which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls



and mitigation steps for each risk. The Risk Register is monitored and reviewed on a regular basis.

- Appointing a professional firm to undertake an annual audit to confirm that contributions and benefit payments have been made in a timely manner and in line with the required timescales.

## 8. Charges and Transaction Costs

- 8.1 The Trustee holds member AVC monies with Prudential and Clerical Medical. The Prudential monies are held in both Unit Linked and With Profit funds, whilst the Clerical Medical monies are held in Unit Linked funds only.

The total expense ratio and transaction costs associated with the AVC funds are shown in the table below:

Fund	TER %p.a.	Total Transaction Cost %p.a.
Prudential Deposit Fund	*	*
Prudential Discretionary	0.80	-0.07
Prudential Ethical	0.75	-0.03
Prudential Fixed Interest	0.75	-0.10
Prudential Global Equity	0.75	-0.04
Prudential Index-Linked	0.75	0.08
Prudential International Equity	0.76	0.08
Prudential Long-Term Gilt Passive	0.65	-0.13
Prudential UK Equity	0.75	-0.04
Prudential UK Equity Passive	0.65	0.31
Prudential UK Property	1.31	0.26
Clerical Medical Balanced Pension	0.50	0.19
Clerical Medical Cautious Pension	0.50	0.18
Clerical Medical Ethical Pension	0.50	0.10
Clerical Medical European Pension	0.50	0.26
Clerical Medical Far Eastern Pension	0.50	0.17
Clerical Medical International Growth Pension	0.50	0.28
Clerical Medical UK Growth Pension	0.50	0.39
Clerical Medical UK Equity Income Pension	0.50	0.34
Clerical Medical UK Property Pension	0.50	0.07

Source: Prudential (year end 30 June 2018) and Clerical Medical (year end 30 June 2019)

\* Prudential have advised that there are no explicit charges associated with this fund, and is only open to existing investors

- 8.2 Where AVC funds are concerned the Trustee has taken a proportionate approach to a market review of price and performance, given the number of members using the policies and the level of member savings invested. The assets with Prudential are invested in with profits arrangements and are deemed to be good value, due to the limited availability of and suitability of alternative options associated with this type of arrangement and further due to potentially significant penalties for members if disinvesting before retirement. Given the size of the arrangements, our advisor has confirmed that it is unlikely that the Trustee will be able to secure better terms from another provider for these assets; hence, provide good value given the limited alternatives available.
- 8.3 For the With Profits funds, there are no explicit charges, with costs being deducted from the annual bonus before distribution. The Trustee has therefore considered how the With-Profits funds have performed in comparison to other providers based on data provided to the Prudential Regulation Authority. The figures show that performance has been mixed when considering medium term (5 years) annualised performance of pay-outs. However longer term pay-outs (15+ years) have provided good returns when compared with other types of investment over similar periods, especially taking into account the additional benefits provided by the With Profits funds.
- 8.4 The Shift Pay Plan funds are held in a With Profits arrangement with Prudential.
- 8.5 For the Unit Linked funds the Trustee has considered the AMC deducted from funds when making comparisons. Members have AMCs that do not exceed the DC charge cap of 0.75% p.a., with the exception of two Prudential specialist funds. These charges are comparable with the wider AVC market.

## 9. Impact of Costs and Charges

- 9.1 The Trustee has presented further illustrations below, which is designed to be representative of members with AVCs. They are based on a member of age 35 (the youngest member), using a starting pot size of £13,000 based on the average for members aged 35-40.

Projected Pot sizes in Today's Money (£)									
Most Popular & Lowest Growth Fund			Most Expensive Fund		Highest Growth		Cheapest Fund		
Year End	Prudential Index-Linked		Prudential UK Property		Prudential Global Equity		Prudential Long-Term Gilt Passive		
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with Charges Incurred
1	12,873.17	12,766.32	13,317.07	13,108.00	13,380.49	13,285.49	12,873.17	12,806.23	
2	12,747.58	12,536.85	13,641.88	13,216.89	13,772.11	13,577.24	12,747.58	12,615.35	
3	12,623.21	12,311.50	13,974.61	13,326.68	14,175.20	13,875.40	12,623.21	12,427.31	
4	12,500.06	12,090.20	14,315.45	13,437.39	14,590.08	14,180.12	12,500.06	12,242.08	
5	12,378.11	11,872.87	14,664.61	13,549.02	15,017.11	14,491.52	12,378.11	12,059.61	
10	11,785.96	10,843.47	16,542.37	14,121.23	17,347.20	16,154.16	11,785.96	11,187.24	
15	11,222.15	9,903.32	18,660.57	14,717.60	20,038.83	18,007.56	11,222.15	10,377.98	
20	10,685.30	9,044.68	21,050.00	15,339.17	23,148.09	20,073.61	10,685.30	9,627.25	
25	10,174.14	8,260.49	23,745.38	15,986.98	26,739.80	22,376.70	10,174.14	8,930.84	
30	9,687.43	7,544.28	26,785.91	16,662.15	30,888.81	24,944.02	9,687.43	8,284.80	

### Notes:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Starting pot size is assumed to be £13,000 and no future contributions have been assumed
- Values are illustrations only and are not guaranteed
- The projected growth rates assumed for each fund are as follows:
  - Prudential Index-Linked (Most Popular & Lowest Expected Growth Fund): -1.81% per year net expected real return above inflation



- b. Prudential UK Property (Most Expensive Fund): 0.87% per year net expected real return above inflation.
  - c. Prudential Global Equity (Highest Expected Growth): 2.22% per year net expected real return above inflation.
  - d. Prudential Long Term Gilt (Cheapest Fund): -1.50% per year net expected real return above inflation.
5. The Transaction Costs relate to the actual transaction costs incurred over the 2018 calendar year.

## 10 Value for Members

- 10.1 As part of the 2019 VFM assessment, the Trustee concluded that the AVC and Shift Pay Plan funds' overall benefits and options represent satisfactory value for money in comparison with the costs payable by members (subject to the above comments regarding the With Profits funds). The reasons underpinning this conclusion include:
- Member charges for the Unit Linked investment funds are comparable to other AVC providers;
  - Where rated by Mercer, the funds used by the Scheme are generally considered as having good prospects of achieving their objectives over the long term;
  - The performance of the Scheme's unit linked funds over the 1 year, 3 year and 5 years to 31<sup>st</sup> March 2019 compare favourably relative to the benchmark.
- 10.2 Additionally, the member option to use the funds as additional tax free cash or to purchase extra benefits from the DB section at retirement, and the Company funding of the costs associated with operating the arrangements, further enhances the value that members can potentially receive.
- 10.3 Assessing the value for money of a With Profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with profits fund provided guarantees; whether that is a guaranteed pension, investment return or "just" capital security. Therefore, the Trustee did not consider it appropriate to reach an overall conclusion as this will vary by member perception.

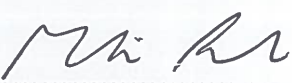
## 11 Trustee Knowledge and Understanding

- 11.2 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.
- 11.3 This requirement has been met during the course of the Scheme year and the Trustee has undertaken regular training throughout the year.
- An investment review of the default investment arrangements and fund range was started in January 2019; this included reviewing the Trustee's investment objectives and principles. The Trustee will be completing the investment review later in the year. An example of an investment exercise was the review of the Scheme's use of Diversified Growth Funds ("DGFs").
  - Two separate training sessions on the appropriateness of the current investment arrangement for the Scheme. During these training sessions, the Trustee set objectives and established their investment beliefs. They also discussed market trends and reviewed the Scheme retirement data against market trends. The individual views and requirements were incorporated into the Scheme's wider investment strategy.
  - A further DC training session was conducted at the March 2019 Trustee's meeting. This gave the Trustee an overview of the DC market in the UK and the differences between different types of pension arrangement. This reinforced the Trustee's knowledge of their governance and regulatory responsibilities.
  - A training session on Business Recovery and Cyber Risk was conducted by the Scheme's provider, Aegon.
  - Guidance was provided to the Trustee by their advisor on the Trustee's governance and disclosure duties in relation to charges and other aspects of DC benefits.
  - The Trustee is planning to issue a knowledge questionnaire over Q4 2019 / Q1 2020. This document will dictate the Trustee's forthcoming agenda. The Trustee intends to review options for Scheme monitoring which will likely fall into Q2 / Q3 2020.

- 11.4 The Trustee is conversant with, and has a working knowledge of, the Trust Deed and Rules. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Scheme's legal advisors.
- 11.5 The Trustee is conversant with, and has a working knowledge of, the current SIP. The Trustee undertakes regular training on investment matters and reviews the investments held by the Scheme at each meeting. The Trustee has sufficient knowledge of investment matters to be able to challenge their advisors.
- 11.6 The Trustee receives professional advice from Mercer and other advisors to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating advisor performance or selecting new advisors. The advice received by the Trustee along with its own experience allows them to properly exercise their function as Trustee.
- 11.7 The Trustee also reviews and assesses, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulator's Code of Practice 13.
- 11.8 The Trustee has a robust training programme in place for newly appointed Trustee Directors. Upon appointment, a Trustee Director is required to undertake completion of the Pensions Regulator's online training programme. The Trustee toolkit is expected to be completed within six months of appointment.
- 11.9 The Trustee undertook a number of activities over the past year which demonstrates how they have a working knowledge of pension & trust law, funding & investment principles, Trust Deed and Rules and the SIP. These activities include:
- The SIP is in the process of being updated following discussions on environmental, social and governance factors in March 2019 and was reviewed over the last year
  - The Risk Register is reviewed and updated regularly. This demonstrates that the Trustee holds relevant knowledge on DC specific internal controls and the regulatory requirements. Training and advice was delivered by the Scheme's advisors as part of the Risk Register review. This was incorporated by the Trustee into the decision making processes. During the period of the statement the Trustee reviewed the financial risks section of the risk register and did not propose any changes. A further review of the DC section risk register will take place on the conclusion of the current review.
- 11.10 The Trustee believes that the best run pension schemes utilise the combined skill and knowledge of both the Trustee and its professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisors. Additionally, the following measures have applied during the period:
- The Trustee's professional advisors and independent Trustee attend their formal meetings;
  - The Trustee Board contains Trustee Directors with wide ranging skills and experience, including pension experience;
  - The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting.

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

Signed for and on behalf of The URENCO UK Pension Scheme



Chair of the URENCO UK Pension Scheme

Date 31.10.19



**Appendix 1 – Statement of Investment Principles – Default Option**

---