

Roll Group Pension Scheme

Defined Contribution Section and AVC arrangements Annual governance statement for the year ending 5 April 2019

Introduction

Governance standards apply to Defined Contribution (DC) pension arrangements like the defined contribution section and Additional Voluntary Contributions (AVCs) within our pension scheme. These standards are designed to help members achieve a good outcome from their pension savings.

As Chair of the Trustees of the Roll Group Pension Scheme I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and we meet regularly to monitor the controls and processes in place in connection with the Scheme's DC investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do let us know.

Default investment arrangement

The Trustees have selected and provides a default investment arrangement for members who do not choose an investment option for their contributions, although members can also choose to invest in this default investment arrangement

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangement. We take professional advice from regulated investment advisers.

Setting an appropriate investment strategy

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the statement of investment principles. A copy of the latest statement of investment principles is attached to this statement. We have chosen the Lifestyle Investment Programme as the default strategy.

When deciding on the Lifestyle Investment Programme as the default investment strategy, the Trustees recognise that the majority of members have their funds invested in the default option (either by default, or by proactively selecting the default fund historically). Therefore, the Trustees' primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for a typical member of the Scheme considering factors such as the size of members' pension savings within the Scheme members' current level of income and likely expectations for income post-retirement etc. When choosing the default strategy, it is the Trustees' policy to consider a range of asset classes, together with their expected returns and the expected volatility of those returns, the suitability of styles of investment management, and the need for diversification. The Trustees also recognise that there are various investment and operational risks and gives qualitative and quantitative considerations to such risks.

The Lifestyle Investment Programme is structured to provide the potential for a level of growth over and above inflation in the long term. In addition, as members approach retirement the monies in the Lifestyle Investment Programme are gradually switched to less volatile investments which aim to protect members' potential income approaching retirement (assuming an annuity is purchased).

The Lifestyle Investment Programme uses a 5-year glide-path to phase a member's investments between individual funds as they approach retirement. When members are more than 5 years from retirement, they are invested in the BlackRock Consensus (Aquila C) fund. Approaching retirement investments are gradually switched out of this fund into the Pre-retirement Fixed Interest fund and the Cash fund.

Reviewing the default investment arrangement

The Trustees are expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years, and consider the needs of the Scheme membership when designing it.

The Trustees are currently (September 2019) undertaking a review of the default investment arrangement. This includes taking advice from the Trustees' investment consultant.

The Trustees are considering the membership profile of the Defined Contribution Section, the risk profile and number of investment funds offered to members.

To fulfil our fiduciary duty to act in members' best interests, we are looking to confirm our understanding of the key features of the current and expected membership. We will use this information to develop an understanding of their needs, attitudes and expectations. This will enable us to make assumptions as to what members' reasonable expectations could be.

We will consider members' attitudes to risk and their retirement expectations and analyse different lifestyle strategies and revisions to the funds in the default investment arrangement, before deciding on what changes would be appropriate at this time. Investment modelling of a variety of different investment strategies will contribute to our decision-making process.

The outcome of this review will be communicated to members in due course.

Self-select investment choices

In addition to the default investment arrangement, the Trustees currently allow members to self-select from the following range of Aviva funds:

- Av BlackRock UK Equity Index (Aquila C) Fund
- Av Global Equity Fund
- Av BlackRock Consensus (Aquila C) Fund
- Av Managed Fund
- Av Fixed Interest Fund
- Av Pre-retirement Fixed Interest Fund
- Av Cash Fund

Members may wish to take financial advice before choosing between these funds.

These self-select investment choices are being reviewed as part of the aforementioned investment strategy review.

Charges and transaction costs paid by members

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the Defined Contribution Section) that are paid by members rather than the employer. In the Scheme members typically pay for investment management and investment transactions as well as administration costs, while the employer pays all the other costs of running the Scheme such as governance.

The level of annual charges applicable to the Scheme's default investment arrangement and self-select investment choices during the last Scheme year were confirmed by Aviva as being:

Fund	Member Charges
Av BlackRock UK Equity Index (Aquila C) Fund	0.55%
Av Global Equity Fund	0.58%
Av BlackRock Consensus (Aquila C) Fund*	0.55%
Av Managed Fund	0.55%
Av Fixed Interest Fund	0.57%
Av Pre-retirement Fixed Interest Fund*	0.55%
Av Cash Fund*	0.55%

The transaction costs applicable to the default investment arrangements and self-select investment choices during the last Scheme year were confirmed by Aviva as being:

Fund	Transaction Costs
Av BlackRock UK Equity Index (Aquila C) Fund	0.12%
Av Global Equity Fund	0.07%
Av BlackRock Consensus (Aquila C) Fund*	0.02%
Av Managed Fund	0.16%
Av Fixed Interest Fund	0.25%
Av Pre-retirement Fixed Interest Fund*	0.06%
Av Cash Fund*	0.01%

* Funds used in the default investment arrangement.

Completeness of transaction cost information

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

Unfortunately, the Trustees have not been able to obtain complete information about transaction costs in relation to the funds offered. Aviva have confirmed that the transaction cost information for all of the underlying funds held by the Av Pre-retirement Fixed Interest Fund is not yet available. The information provided above for this fund is based on the data received by Aviva.

We are reviewing our processes for monitoring transaction costs and will be discussing with Aviva their ability to provide complete information for these funds in future.

It should be noted that the transaction costs (and therefore the 'total' charges for each fund) are likely to vary from fund to fund and from year to year.

Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on the value of a member's pension savings.

Aviva have prepared the attached examples which are being used by the Trustees having taken account of the statutory guidance issued by the Department of Work and Pensions in preparing this section of our statement.

The attached Costs and Charges Illustrations prepared by Aviva are broadly representative of a new starter who does not yet have any money in their pension pot and starts employment with relatively modest contributions. This compares to an 'average member' of the Scheme who has a current pot of £20,000 and monthly contributions of c.£250. For a personalised illustration on the impact of investing to your retirement date please refer to your annual benefit statement.

Good value for members

As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which the member-borne costs and charges within the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been considered in the assessment of value to members.

This section sets out the approach that the Trustees have taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

Overall approach and conclusion

The Trustees believe that the charges are reasonable, that the funds have performed well relative to their benchmarks and that the fund managers and administrators are providing a reasonable level of service in relation to the fees charged.

In undertaking the assessment, the Trustees considered:

- The benefits of membership (contribution structure, administration / online services, member support, governance and member communications).
- Investment arrangements (including the performance of the growth phase of the default investment arrangement).
- Charges applied to members.
- How these compare to other pension arrangements.

Based on our assessment we have concluded that the Scheme represents satisfactory value for money for members over the year to April 2019 and that there are areas where value could be improved for members. This includes reviewing the investment strategy and considering whether member support and communications can be improved, particularly the administration support and responsiveness of Aviva. The Trustees' focus, therefore, is on implementing changes in these areas.

Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Defined Contribution Section;
- transferring assets relating to members into and out of the Scheme
- transferring assets between different investments within the Scheme and
- making payments from the Scheme to, or on behalf of, members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrators, Aviva and Buck.

There is a service level agreement in place between the Trustees and Buck which provides for Buck to ensure accurate and timely processing of the core financial transactions for which it is responsible. Aviva are also expected to ensure accurate and timely processing of the core financial transactions for which it is responsible. Both are required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Scheme's trust deed and rules. Any mistakes or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

In order to monitor this service, the Trustees receive 6-monthly reports confirming the payment and allocation of contributions, together with statistics on the level of service that is provided in comparison to agreed targets and timescales. The Trustees monitor transactions made via the Trustees bank account on a regular basis.

As administrator, Buck prepares an annual report (AAF 01/06) setting out its internal controls in respect of pensions administration which is independently audited. The report details the review processes adopted by the administrators to support the accuracy and timely processing of core financial transactions.

The Scheme Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

There were no material administration service issues discussed in the last Scheme year which need to be reported here by the Trustees and as a result I am confident that all core financial transactions have been processed accurately within a reasonable time.

Overall, we are confident that the processes and controls in place with the administrators are robust and will ensure that the financial transactions which are important to members are dealt with properly.

Defined Benefit Section AVC arrangements

Our historic AVC arrangements associated with the Defined Benefit Section (which are closed to new members) are provided by Aberdeen Standard and Equitable Life Assurance Society.

Members with Equitable Life funds are invested in a With Profits fund which has no annual management charge, but Equitable Life allows for a charge of 1.0% p.a. when declaring With Profits bonus rates. With Profits policyholders also incur an annual charge of 0.5% p.a. in order to provide Equitable Life with sufficient capital to meet the expected cost of guaranteed benefits on all of their With Profits policies.

With Aberdeen Standard, members can choose to invest in a variety of Unit-Linked funds, each of which has an annual management charge of 1.0% p.a. and also incur an additional charge of 0.01% p.a. to cover expenses.

The Trustees periodically review these arrangements to ensure they continue to be fit for purpose and writes directly to individual members who have such investments if there is anything of significance to highlight or make members aware of.

The Trustees are currently reviewing the proposals by Equitable Life to transfer all with profit holdings to Utmost Life and Pensions. The Trustees have already written to affected members notifying them of the proposed changes and will continue to communicate with affected members in respect of the proposal.

The Trustees have not accessed transaction costs for these arrangements but plan to consider these as part of the next review of the arrangements and after the changes at Equitable Life have taken place.

The Trustees take a proportionate approach to reviewing the investments based on the size of the funds invested compared to the size of the funds invested in the Defined Contribution Section and relatively small numbers of members who are invested in these arrangements.

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Scheme's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Scheme effectively.

The Trustees meet all the knowledge and understanding requirements and understands the Scheme and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustees current policies. They are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustees do this by regularly reviewing the relevant Scheme documents.

We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

During the Scheme year the following training and development activities have taken place:

- The training received is regularly reviewed to identify any gaps in the knowledge and understanding across the Trustee Board as a whole.
- The Trustees receive "on-the-job" training. This means that as new topics arise, their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests, as well as training during the meeting so that the Trustees may engage on such topics in an informed manner.


- Recent training received (that relates specifically to DC pensions) has included:
 - 21st Century Trusteeship - Assessment of the Trustee Board
 - Responsible Investment Training (ESG considerations)
 - DC default investment and core fund considerations
 - Topical Issues in Pensions

- The Trustees assess the Scheme against the standards set out in the code of practice for trustees of pension schemes providing money purchase benefits (the DC code) to ensure we are offering a quality scheme.

Relevant advisers attend meetings and are in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

As a result of the training activities which have been completed by the Trustee Board individually and collectively and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees.

Signed for and on behalf of the Trustees of the Roll Group Pension Scheme by David Attle, Chair of Trustees.



Date 4th October 2019

