

THE CITY AND GUILDS (1966) PENSION SCHEME

CHAIRMAN'S DC GOVERNANCE STATEMENT

YEAR ENDED 30 SEPTEMBER 2018

This statement has been prepared by the Trustee of the City and Guilds 1966 Pension Scheme to demonstrate how it has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015. It covers the year from 1 October 2017 to 30 September 2018

Statement of Investment Principles and Default arrangements

The Trustee has a Statement of Investment Principles (SIP) for the Scheme. This contains important information such as the Trustee's aims and objectives in relation to default funds and other investment arrangements; its policies in relation to the types of investments to be offered; and how risks will be measured and managed. A copy of the latest SIP is attached as Appendix C.

The DC Section's current default investment strategy for automatic enrolment purposes is the 'Target Annuity' lifestyle strategy. Details about this strategy are:

Default Investment Strategy

The '**Target Annuity**' default investment strategy is structured as follows:

Growth Phase- up to 15 years prior to the member's selected retirement age, My Future 'Growth Fund' aims to help pension savings grow by investing in a fund with medium investment risk. This Fund is made up of a variety of passively managed funds investing in shares, Government and Corporate Bonds, and commodities amongst other investments.

Consolidation Phase- at 15 years prior to the member's retirement age, investment risk is reduced by gradually moving the fund and contributions from a medium risk fund, to lower risk funds. Savings initially switch into the My Future 'Consolidation Fund', which is designed to keep pace with inflation with risk controlled growth. Five years prior to retirement age, the My Future 'Annuity Fund' is introduced. This fund consists of passively managed corporate bonds and gilts.

In addition to this default investment strategy, the funds marked with (*) in Appendix A (funds and charges) are also classified as default funds, by virtue of holding assets where the member has not made written choice to invest in the fund concerned (due to investment transitions), or having been part of the previous investment main default strategy which was used by the Scheme.

Due to an error when Aviva set up the new Category E in the Scheme a small amount of assets were invested in funds that are not made available to members by the Trustee. Affected members have been informed. This issue is being rectified, and the affected funds are now closed. For completeness details of the affected funds are identified in Appendix A.

A review of the default strategy commenced in September 2018 and is being completed. Details of the review will be provided in the next Annual Governance Statement.

The Trustee reviews how the funds within the default strategy (and self-select fund range) have performed against the Trustee's and the investment managers' objectives and their respective benchmarks. An update is provided at each Trustee meeting as part of the investment performance monitoring report. The analysis and advice provided supports the Trustee in determining whether it should make any changes based on the performance of funds.

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Financial transactions

The Trustee is satisfied that the Scheme's "core financial transactions" have been processed promptly and accurately during the Scheme year. These include the investment of contributions; payments out of the Scheme to, or in respect of, members; transfers in; transfers out; and investment switches.

The Trustee employs both Willis Towers Watson and Aviva to undertake the financial transactions on behalf of the Trustee and there are Service Level Agreements (SLAs) in place with both of them. Aviva processes to help meet the SLA included daily monitoring of bank accounts, a dedicated contribution processing team, and two individuals checking all investment and banking transactions.

An update on Aviva's and Willis Towers Watson's performance against their respective SLAs is provided at each Trustee meeting. During the year there have been some issues with Aviva regarding the processing of financial transactions, in particular for leavers, retirements and transfers. The Trustee monitored these and took action with support from its pension adviser to ensure that:

- Where there were delays in the collection and investment of contributions by Aviva, the investment was backdated to ensure that members' funds were treated as having been invested at the right time.
- A programme of action was in place at Aviva to correct any errors and processes were reviewed to avoid similar issues arising in future.

Progress has been made and Aviva is currently introducing new administration processes and reporting procedures to improve the processing time of core financial transactions. The Trustee continues to oversee all of its administration support closely with input from its advisers.

Investment charges and transaction costs

Charges and transaction costs for each core fund in the DC Section are in Appendix A.

Transaction costs are those incurred by the investment managers as a result of buying, selling, lending or borrowing investments. The Financial Conduct Authority (FCA) has issued a Policy Statement which establishes a defined methodology to calculate transaction costs that is in line with the Packaged Retail and Insurance-based Investments (PRIIPs) Regulations. These requirements took effect from 3 January 2018 and investment managers are now obliged to report transaction costs using this methodology.

Aviva has a tool for calculating transaction costs using the FCA's methodology, and this has been used to calculate the figures shown, but the processes to comply with the FCA's recommended approach are still developing. There are a number of funds for which the Trustee has not been able to obtain any transaction costs information and these are shown in Appendix A. As more information emerges for other providers and schemes it should in future be possible for the Trustee to benchmark their transaction costs against those incurred by others.

A '£ and pence' illustration example is attached as Appendix B. This is required under statutory guidance issued by the Department for Work and Pensions in February 2018. The illustration estimates, on reasonable assumptions, the cumulative effect over time of the charges and transaction costs on the value of a range of typical investment funds, pot sizes and contribution rates for DC Section members.

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Value for Members

The Trustee is committed to ensuring that members receive good value from their membership of the Scheme (i.e. that the costs and charges deducted from DC accounts or contributions provide good value relative to members' benefits). We monitor value for members quarterly as part of the Trustee's risk register for the DC Section.

The latest annual assessment was completed in February 2019, in accordance with the Pensions Regulator's DC code and Regulations. The assessment looked at the DC Sections charges, governance and management, investment options and performance, administration services and member communications and support, specifically identifying those services paid for by members through the charges applying to the investment option.

The assessment concluded that the DC Section represents good value for members, because of:

- An effective and low cost default investment fund, alongside a wide range of self-select funds.
- An administration service through Aviva that has improved service levels over the last year, with improvements continuing to be made. The Trustee continues to monitor the service levels.
- The charges applied to members' accounts being significantly below the charge cap (0.75%) and lower than the average charges for similar schemes as assessed by Willis Towers Watson. The transaction costs applied to members' accounts are considered reasonable based on the information available.
- The variety of communications available to meet member needs for information, guidance and education. These include an online portal with information and planning tools, and standard member communications such as benefit statements and retirement quotations.
- The additional services where members do not meet their cost and which enhance value, including the Trustee's overall monitoring and governance of the Scheme and its proactive approach to ensuring members receive good service.

Trustees' knowledge and understanding (TKU)

The Trustee has a strong TKU process in place which enables it, along with the advice from its advisers, to properly exercise its function as Trustee of the Scheme. The Trustee's approach to the TKU requirements includes:

- A structured induction process in place for new Trustees, which was completed by Hugh Smart, who was appointed to the Trustee Board during the year.
- Maintaining a rolling programme of bespoke Trustee training which is delivered during Trustee meetings where appropriate. For example sessions held over 2017/2018 included training on at-retirement support and the default investment fund.
- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chairman's Annual Governance Statement.
- Circulating to each Trustee hot topics and general updates from its advisers about DC matters, including legislation relating to pensions and trusts, and funding and investment of occupational defined contribution pension arrangements.
- Reviewing the training programme annually following an assessment of Trustee knowledge, understanding and skills, and assessing any gaps to be addressed in the next year.
- Carrying out an effectiveness self-assessment annually.
- Ensuring that the Trustee has a working knowledge of all key documents setting out the Trustee's current policies, including the Trust Deed and Rules and the Statement of Investment Principles.

The Trustee Board's combined knowledge and understanding, together with advice available to them enables them to exercise their functions effectively. The Trustee undertakes annual evaluation of the performance and effectiveness of the board as a whole measured against the objectives of the Scheme's Business Plan. The evaluation was completed through assessment of the Trustee's involvement in the Scheme, the decisions made at Trustee meetings and the execution of those decisions. The Trustee also takes steps to disclose and manage potential conflicts, risks or bribery issues. Finally the Trustee's review of administration and stewardship reports and actions taken as a result of these reviews.

The Trustee is satisfied that the Scheme has been well governed and operated in accordance with the Pensions Regulator's expectations. All key developments during the Scheme year, including the introduction of Category E of the Scheme, compliance with the General Data Protection Requirements in May 2018, and the development of new protocols around cyber risk have taken place in accordance with these governance standards.

Signed by the Chair on behalf of the trustees/managers of the scheme:

Date:


27/2/2019