

## GROUP TRUSTEES' STATEMENT ON DC GOVERNANCE – SCHEME YEAR ENDED 31 MARCH 2020

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) were amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 to include the requirement for the Trustee to prepare an annual statement regarding governance of Defined Contribution (DC) funds within the Group, which must be included in the annual report.

This statement is in respect of the DC Category of the Group (the MEPS and EGPS Categories) and the Additional Voluntary Contribution (AVC) arrangements. It covers governance and charges disclosures in relation to the items set out below for the period 1 April 2019 to 31 March 2020:

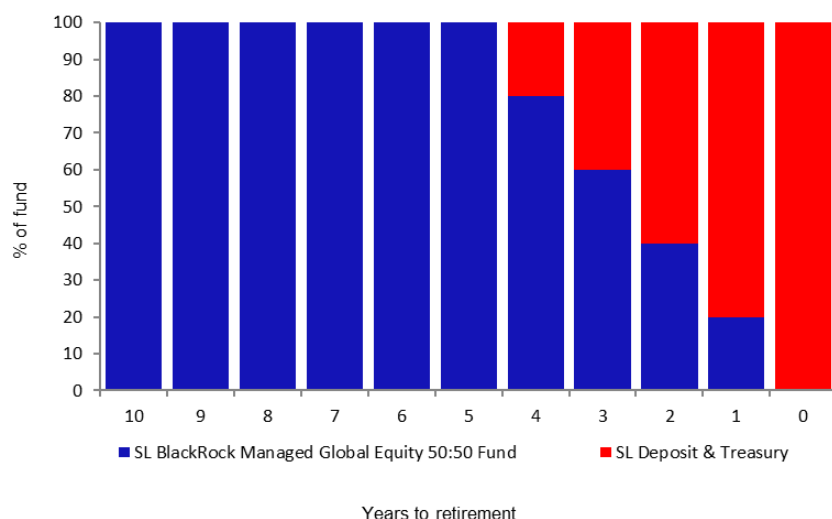
- The default investment strategy
- Charges and transaction costs paid by members
- Processing of core financial transactions, and
- Trustee knowledge and understanding

### The Default Investment Strategy

A default strategy is one in which members contributions are automatically invested if they do not select their own investment funds from the available range. A deemed default strategy is one that 80% or more of members have chosen to invest in.

The DC Category of the Group has been closed to new entrants since 2005 and therefore the category does not have a default investment strategy as defined by the Regulations i.e. an investment strategy into which members are automatically enrolled. However, the MEPS Category has a deemed default strategy - the Prudential Discretionary Fund.

The AVC arrangement with Standard Life has a default lifestyle strategy which invests in the Standard Life BlackRock Managed Global Equity 50:50 Fund until five years before selected retirement age. It then switches to the Standard Life Deposit and Treasury Fund as retirement approaches, as members are expected to take their AVC funds as cash at retirement. The structure of this lifestyle strategy is illustrated in the chart below:



More details on the Group's investment strategy for these funds are included in the DC Statement of Investment Principles (SIP), which can be found in the appendix to this Statement.

The investment options available to members are reviewed by the Group Trustees on an annual basis to ensure they continue to meet the needs of most members. The review considers provider financial strength, fund quality, liquidity and tradability, fund performance and charges. Following the latest review carried out in June 2020, the Group Trustees were satisfied that the majority of investment options remain appropriate. Following the 2019 review in which it was identified that a number of the funds members hold through the AVC arrangements had under-performed and that charges were higher than current market rates, the Group Trustees carried out a benchmarking review of the AVC providers and fund choices and agreed to establish a new arrangement with Aviva with a view to providing improved value for members. This arrangement is expected to be made available to members during the third quarter of 2020.

## Processing of Core Financial Transactions

The Group Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately. These include, but are not limited to:

- Investing DC/AVC contributions in the Group,
- Transferring assets relating to members into and out of the Group,
- Transferring assets relating to members between different investments within the Group, and
- Making payments from the Group to or on behalf of members.

In practice, the Group Trustees delegate responsibility for this to the Group administrators, RPMI. The Group Trustees have a service level agreement in place with RPMI and this covers payment of contributions, transfers in or out of the Group, and settlement of benefits. The Group Trustees receive regular communications on core financial transactions from RPMI via quarterly stewardship reports, which are reviewed in detail by the Group Trustees' Audit Committee.

The transfer of assets between different investments within the Group (fund switches) are actioned by RPMI at members' request for the arrangements where members do not have online access to their policy. RPMI do not currently report on fund switch transactions. However, all AVC payers will be able to switch funds online under the new Aviva arrangement and Aviva will include fund switches in its regular reporting to the Group Trustees.

The Group Trustees can confirm that all core financial transactions have been processed promptly, accurately and in accordance with agreed service levels the Group Trustees have in place with RPMI under their remit as administrator over the period covered by this Statement.

## Charges and transaction costs paid by members

The Group Trustees regularly monitor the (i) explicit charges such as the Annual Management Charge ('AMC') and additional expenses that are disclosed by the fund manager which when added to the AMC, make up the Total Expense Ratio ('TER') and (ii) transaction costs (i.e. the costs of buying and selling investments in the fund) which are paid by members. Where information about member charges and costs is not available for whatever reason, the Group Trustees have to disclose this, together with an explanation of what steps are being taken to obtain the information.

### Explicit charges

The 'deemed default' for the MEPS Category (the Prudential Discretionary Fund) is subject to the charge cap of 0.75% p.a. as, although the DC Category of the Group is not used for automatic enrolment purposes, it is deemed to be a qualifying arrangement for satisfying the automatic enrolment obligations for active members. The Prudential Discretionary Fund complied with the charge cap during the period covered by this statement.

The AMC, TER, and transaction costs for the funds held by members of the MEPS Category and the EGPS Category are shown in the tables below. At the time of writing, our providers were not able to confirm the transaction costs for the period covered by this statement for all funds. We have therefore shown the latest transaction cost data available.

MEPS Category (Prudential DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/12/2019)
Cash	0.55	0.55	0.00
Discretionary	0.75	0.75	0.12
Fixed Interest	0.65	0.65	0.19
Index Linked	0.65	0.65	0.36
Property	0.75	1.32	0.11

EGPS Category (AEGON DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/03/2020)
DC Balanced Growth	0.75	0.75	0.16
DC 70/30 Global Growth	0.75	0.75	0.19
DC Cash	0.30	0.33	0.01
DC Pre-Retirement	0.50	0.50	0.03

The AMC, TER and transaction costs for the funds held by members of the AVC arrangements, where they are disclosed by the providers, are shown in table below.

Standard Life AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/03/2019)
Aberdeen Life Sterling Credit	0.95	1.05	0.09
Annuity Targeting	0.60	0.61	0.07
Asia Pacific ex Japan Equity	0.60	0.75	0.01
At Retirement (Multi Asset Universal)	0.60	0.64	0.12
Baillie Gifford UK and Worldwide Equity	0.90	0.94	0.01
Baillie Gifford UK Equity Core	0.90	0.93	0.00
BlackRock Managed (50:50) Global Equity	0.60	0.62	0.05
BNY Mellon UK Equity	0.90	1.02	0.10
Corporate Bond	0.60	0.62	Not available <sup>2</sup>
Deposit & Treasury	0.60	0.61	0.09
Ethical	0.60	0.61	0.10
European Equity	0.60	0.62	0.02
Far East Equity	0.60	0.70	0.13
FTSE Tracker	0.60	0.61	0.03
Global Equity 50:50	0.60	0.61	0.22
Index Linked Bond	0.60	0.61	0.12
International Equity	0.60	0.63	0.07
iShares UK Equity Index	0.60	0.62	0.00
Japanese Equity	0.60	0.63	0.35
Managed	0.60	0.62	0.12
Mixed Bond	0.60	0.61	0.06
Multi Asset Managed (20-60% Shares)	0.60	0.62	Not available <sup>2</sup>
Money Market	0.60	0.61	0.01
North American Equity	0.60	0.61	0.02
Property	0.60	0.63	0.09
Aberdeen Standard Investments Global Absolute Return Strategies (GARS)	1.02	1.11	0.32
Aberdeen Standard Investments UK Smaller Companies	1.00	1.10	Not available <sup>2</sup>
Stock Exchange	0.60	0.63	0.09
UK Equity	0.60	0.61	0.14
Pension With Profits Fund	1.75	1.75	0.08

Aviva AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
Long Gilt	0.875	0.875	Not available <sup>1</sup>
Mixed Investments (40-85% Shares)	0.875	0.875	
UK Equity	0.875	0.875	
With Profits Guaranteed	Not applicable <sup>3</sup>		
With Profits	Not applicable <sup>3</sup>		

Utmost Life and Pensions (formerly Equitable Life) AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
With Profits Fund	1.0	1.0	1.04 <sup>4</sup>
Secure Cash Fund	0.5	0.5	Not available <sup>5</sup>

Prudential AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/12/2019)
Deposit	Not applicable <sup>6</sup>	Not applicable <sup>4</sup>	0.00
Discretionary	0.75	0.78	0.12
Fixed Interest	0.75	0.76	0.19
Global Equity	0.75	0.76	0.08
International Equity	0.75	0.76	0.18
UK Equity Passive	0.65	0.66	0.06
UK Equity	0.75	0.76	0.00
With Profits	0.8 (estimate) <sup>3</sup>	0.98 (estimate) <sup>3</sup>	0.09

Royal London AVC arrangement	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.)
BlackRock Aquila Global Equity Index (50:50)	0.59	0.59	Not available <sup>1</sup>
BlackRock Aquila UK Equity Index	0.59	0.59	
Deposit	0.59	0.59	

Index Linked	0.59	0.59	
Sustainable Leaders	0.59	0.59	

#### Notes

<sup>1</sup> Although these providers are now able to calculate transaction costs using the prescribed method, these calculations were not ready at the time of writing this statement. We expect our providers to report this information more quickly in future and therefore hope to include this information in future statements.

<sup>2</sup> Not all the data required to calculate the transaction costs for these funds was available from the fund managers.

<sup>3</sup> The charges on these With Profits Funds are not explicit, they are taken into account when the bonus on the Funds is declared. Standard Life estimates the charges on the Pension With Profits Fund are 1.75% p.a.; Prudential estimates the charges on the With Profits Fund are 0.98% assuming investment returns on the underlying assets are 5% p.a. Aviva does not disclose any indication of the level of charges on its With Profits Funds.

<sup>4</sup> The transaction costs shown are to 31 December 2019, as this Fund closed on 1 January 2020.

<sup>4</sup> No transaction cost data is available for this Fund as it has been in operation for less than 12 months.

<sup>6</sup> There are no explicit charges on the Prudential Deposit Fund, this Fund aims to provide a net return in line with the Bank of England base rate.

The prescribed method of calculating transaction costs states the trading cost is arrived at by comparing the price at which the transaction was actually executed with the price when the order to transact entered the market. So, when selling into a rising market or buying into a falling market, the calculation produces a credit that may outweigh the other 'explicit' transaction costs, resulting in negative overall transaction costs. We have set any negative transaction costs to zero in the statement to avoid potentially understating costs.

#### Illustrations to show the cumulative effect of costs and charges

The Group Trustees are required to illustrate the effect of the costs and charges typically paid by a member on the value of their DC fund at retirement (as a "pounds and pence figure"). The Regulations allow the Group Trustees to exercise their discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Group's DC membership.

The Group Trustees have taken account of the statutory guidance when preparing these illustrations.

The illustrations are based on a number of assumptions about the future which are set out below under 'notes and assumptions'. Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Group, they are not a substitute for the individual and personalised illustrations which are provided to members in their annual Benefit Statements.

We have decided to illustrate four example members - 2 for the MEPS Category and 2 for the EGPS Category (we have decided not to take account of future contributions paid to the MEPS Category, given the consultation underway to close this Category to future contributions):

- Example member 1: the member of the MEPS category with the longest term to retirement (age 36) with a retirement age of 60 and fund value of £50,000;
- Example member 2: the average member of the MEPS category (aged 48) with a retirement age of 60 and fund value of £50,000;
- Example member 3: the youngest member of the EGPS Category (age 39) with a retirement age of 60 and fund value of £21,500;
- Example member 4: the average member of the EGPS Category (aged 48) with a retirement age of 60 and fund value of £21,500;

For the MEPS category, in order to show the impact of different levels of charges and investment returns, we have produced illustrations to demonstrate the effect of the above costs and charges for the Discretionary Fund and the Cash Fund. 88% of members and 84% of assets are invested in the Discretionary Fund and 53% of members and 12% of assets are invested in the Cash Fund (some members invest in more than one Fund). We have decided not to show the representative effect of costs on the other funds available through the MEPS category,

The tables below illustrate the effect of the costs and charges on projected retirement pots for example members 1 and 2 at different ages.

**Example member 1:**

For the youngest member of the MEPS Category, the estimated impact of charges on accumulated fund values invested in the Prudential Discretionary Fund or the Prudential Cash Fund are shown in the table below.

At age:	Prudential Discretionary Fund			Prudential Cash Fund		
	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)
36	50,000	50,000	0	50,000	50,000	0
40	55,710	54,020	1,690	47,790	46,760	1,030
45	63,780	59,500	4,280	45,170	43,010	2,160
50	73,010	65,530	7,480	42,690	39,560	3,130
55	83,590	72,180	11,410	40,350	36,390	3,960
60	95,690	79,500	16,190	38,140	33,470	4,670

**Example member 2:**

For the average member of the MEPS Category, the estimated impact of charges on accumulated fund values invested in the Prudential Discretionary Fund or the Prudential Cash Fund are shown in the table below.

At age:	Prudential Discretionary Fund			Prudential Cash Fund		
	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)
48	50,000	50,000	0	50,000	50,000	0
50	52,780	51,970	810	48,880	48,360	520
55	60,420	57,240	3,180	46,200	44,480	1,720
60	69,170	63,050	6,120	43,670	40,910	2,760

For the EGPS Category, in order to show the impact of different levels of charges and investment returns, we have produced illustrations to demonstrate the effect of the above costs and charges for the AEGON BlackRock Balanced Growth Fund and the AEGON BlackRock Cash Fund. 93% of members and 55% of assets are invested in the Balanced Growth Fund and 29% of members and 4% of assets are invested in the Cash Fund (some members invest in more than one Fund). We have decided not to show the representative effect of costs on the other funds available through the EGPS Category.

The tables below illustrate the effect of the costs and charges at different ages on projected retirement pots for the example members 3 & 4.

**Example member 3:**

For the youngest EGPS Category member the estimated impact of charges on accumulated fund values invested in the AEGON BlackRock Balanced Growth Fund or the AEGON BlackRock Cash Fund are shown in the table below.

At age:	AEGON BlackRock Balanced Growth Fund			AEGON BlackRock Cash Fund		
	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)
39	21,500	21,500	0	21,500	21,500	0
40	22,320	22,130	190	21,220	21,140	80
45	26,950	25,560	1,390	19,850	19,450	400
50	32,530	29,530	3,000	18,570	17,890	680
55	39,260	34,110	5,150	17,370	16,450	920
60	47,390	39,400	7,990	16,260	15,130	1,130

#### Example member 4:

For the average EGPS Category member, the estimated impact of charges on accumulated fund values invested in the AEGON BlackRock Balanced Growth Fund or the AEGON BlackRock Cash Fund are shown in the table below.

At age:	AEGON BlackRock Balanced Growth Fund			AEGON BlackRock Cash Fund		
	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)	Fund value before charges (£)	Fund value after charges (£)	Impact of charges (£)
48	21,500	21,500	0	21,500	21,500	0
50	23,180	22,780	400	20,930	20,790	140
55	27,980	26,310	1,670	19,590	19,120	470
60	33,770	30,390	3,380	18,320	17,590	730

#### Notes

Fund values shown are estimates and are not guaranteed

Illustrations assume no further contributions are paid

Fund values are shown in real terms and do not to be reduced further to allow for the effects of inflation

Inflation is assumed to be 2.5% per annum

Where available, the transaction costs have been averaged over a 2 year period in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.

The projected growth rates used for illustrations are as follows:

Prudential Discretionary Fund	2.0% p.a. above inflation
Prudential Cash Fund	1.7% p.a. below inflation
Aegon BlackRock Balanced Growth Fund	3.0% p.a. above inflation
Aegon BlackRock Cash Fund	1.7% p.a. below inflation

#### Value assessment

The Administration Regulations require that the Group Trustees make an assessment of charges and transactions costs borne by members and the extent to which those charges and costs represent good value for money for members. The Group Trustees have established a cost-benefit analysis framework in order to assess whether the member borne charges and transaction costs deliver good Value for Members. In terms of the benefits of membership the Group Trustees have considered four core benefit categories: Governance and Management, Administration, Investments and Communications. The assessment takes into account available research on the costs and features of other DC schemes for comparison purposes.

Having undertaken an assessment of the Group over the period which considered the costs and charges members pay and the benefits of membership (in terms of quality of administration, investment, governance of the arrangements and communications), the Group Trustees have concluded that overall the DC Categories provide value for members. The Group Trustees have identified that the charges on the AVC arrangements are higher than current market rates for schemes of a similar size, and therefore, following a benchmarking review of the AVC providers and fund choices, they have agreed to establish a new arrangement with Aviva with a view to providing improved value for members. This arrangement is expected to be made available to members during the third quarter of 2020.

#### Trustee Knowledge and Understanding

The law requires Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. These requirements are set out in Sections 247 and 248 of the Pensions Act 2004.

The Chair of the Group Trustees is an experienced pension professional who has acted as a trustee for ten years across a number of different pension schemes with DC sections.

Over the period covered by this Statement, the Group Trustees have worked to address any relevant gaps which they have identified in their knowledge and kept their knowledge and understanding up to date through various training activities and involvement in the running of the Group.

This has involved working on a wide range of issues including:

- An ongoing project to review the current DC and AVC arrangements, including a review of the Group Trustees' powers and current processes in respect of these funds, as well as liaising with the employer over future contributions to the MEPS Category;
- Work in relation to topical issues in pensions, such as the approach to ESG (Environmental, Social and Governance) factors in investment decision making.
- Making decisions on specific member cases, taking into account the requirements of the Group's Trust Deed & Rules and also the wider law relating to pensions and trusts;
- Regular tasks, such as input into the completion of the Trustee Report & Accounts for the year ending 31 March 2019, which included work in relation to the reviews of the DC and AVC arrangements and the DC governance and charges statement for that period; and
- The Group Trustees take their training and development responsibilities seriously. We maintain a training log and all Group Trustees are encouraged to identify any gaps in their knowledge and work with the pensions team, professional advisers and external agencies to fill any gaps. All Group Trustees have completed the Pensions Regulator's Trustee Toolkit.

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

Signed on behalf of the Group Trustees on 7 August 2020

**Martine Trouard-Riolle**  
**On behalf of Capital Cranfield Pension Trustees Limited - Chair**

**E.ON UK GROUP OF THE ESPS (THE 'GROUP')**  
**STATEMENT OF INVESTMENT PRINCIPLES – DEFINED CONTRIBUTION ARRANGEMENTS**

The following document outlines the Group's Statement of Investment Principles (SIP), which sets out the investment objective, the investment strategy, the Group Trustees approach to risk management, issues concerning implementation of the strategy and the policy on governance for the Money Purchase arrangements within the Group. This covers both the Defined Contribution Sections of the Group and the Additional Voluntary Contributions (AVCs) arrangements under the Defined Benefit Section.

### 1. INVESTMENT OBJECTIVE

The Group has two Defined Contribution categories; the EGPS Category which uses AEGON (formerly BlackRock) as its provider and the MEPS Category which uses Prudential. The Group also makes AVC arrangements available to final salary members of the Defined Benefit category. The Group Trustees maintain a similar approach to AVCs to that for Defined Contribution categories, particularly in respect to the selection and monitoring of investments.

The Group Trustees are responsible for investing the Money Purchase assets in line with members' preferences. Its key aim is to provide a range of investments that are suitable for meeting members' long and short term investment objectives allowing for members' differing individual circumstances. In particular, the range of members' attitudes to risk and term to retirement are considered.

In preparing this statement, the Group Trustees have consulted with E.ON UK plc ('the Sponsoring Employer') and obtained and considered advice from its investment adviser, Aon Hewitt Limited ('Aon'), on the appropriateness of this statement. Aon is authorised and regulated by the Financial Conduct Authority in respect of a range of investment business activities.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:

- At least every three years; and
- Without any delay after any significant change in investment policy or the demographic profile of relevant members.

### 2. STRATEGY

The Group Trustees policy is to provide suitable information for members so that they can make appropriate investment decisions. Members are responsible for selecting the fund or combination of funds in which they wish to invest their pension accounts from the available range.

The 'Group Trustees use fund platforms provided by AEGON and Prudential for the Defined Contribution Sections to implement the Group's objectives.

<b>BlackRock Platform (EGPS Category)</b>	
<b>Fund</b>	<b>Benchmark</b>
BlackRock Balanced Fund	Fixed Weight Benchmark <sup>1</sup>
BlackRock 70/30 Global Fund	70% FTSE All Share Index / 30% Fixed Overseas <sup>2</sup>
BlackRock Cash Fund	7 Day LIBID
BlackRock DC Pre-Retirement Fund	Composite Benchmark <sup>3</sup>
BlackRock DC Diversified Growth Fund	Bank of England official Bank Rate plus 3.5%
BlackRock DC Long Gilt Fund	FTSE A Over 15 Year Gilts Index
BlackRock LGIM Consensus Fund	ABI Mixed Investments 40 -85% shares sector average
BlackRock LGIM Global Equity 50:50 Index Fund	50% FTSE All Share Index, 17.5% FTSE All World North America Index, 17.5% FTSE All World Europe (ex UK) Index, 8.75% FTSE All World Japan Index, 6.25% FTSE All World Asia Pacific (ex Japan) Index

<sup>1</sup> 55% FTSE All-Share TR Index, 10% FTA All Stocks Gilts Index 10%, 8% FTSE World Europe ex UK Gross Return (GBP), 8% FTSE World US TR in GBP Terms, 5%, Barclays Global Agg 500 Ex GBP (GBP), 5% LIBID 7 Day GBP, 4%, FTSE World Pacific Ex Japan (GBP), 4% FTSE JAPAN INDEX (GBP), 1% MSCI Emerging Markets Gross Returns (GBP).

<sup>2</sup> Overseas Weights: 10% Continental Europe, 10% North America, 5% Japan, 4% Pacific Basin, 1% Emerging Markets

<sup>3</sup> The benchmark and the underlying investment strategy take into account a number of factors including current expected longevity of immediate annuitants, the yields available in the corporate bond market and the types of annuities generally purchased by defined contribution pension investors in the UK. The constituents of the benchmark and consequently the investment strategy are subject to an annual review and may be updated to include other factors.



<b>Prudential Platform (MEPS Category)</b>	
<b>Fund</b>	<b>Benchmark</b>
Prudential Discretionary	Internal composite benchmark <sup>1</sup>
Prudential Cash	London Interbank LIBID 7 Day Deposit Rate
Prudential Property	All Balanced Property Fund component of the AREF / IPD UK Quarterly Property Fund Index
Prudential Index Linked	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index
Prudential Fixed Interest	FTSE Actuaries UK Conventional Gilts All Stocks Index
Prudential International Equity	Internal composite benchmark <sup>2</sup>
Prudential UK Equity	FTSE All-Share Index
Prudential World ex-UK Index	FTSE All-World Developed ex-UK Index
Prudential BlackRock Consensus	CAPS Pooled Fund Survey Balanced Fund asset weights excluding property and emerging markets
Prudential BlackRock 50:50 Global Equity	Composite Benchmark <sup>3</sup>
Prudential BlackRock Over 15 Years UK Gilt Index Fund	FTSE Actuaries UK Conventional Gilts Over 15 Years Index
Prudential Absolute Return Fund	UK CPI + 5%p.a.

<sup>1</sup> benchmark asset allocation 67.5% global equities (split 40/60% UK/ overseas); 7.5% property; 25% bonds/cash

<sup>2</sup> benchmark asset allocation 26.7% North America; 26.7% Europe; 26.7% Pacific Basin; 11.7% Japan; 8.3% Emerging markets

<sup>3</sup>50% FTSE All-Share Index TR, 16.5% FTSE United States Index in GBP, 16.5% FTSE All-World Developed Europe ex-UK Index NET of Tax GBP, 8.5% FTSE All-World Developed Japan Index NET of Tax GBP, 8.5% FTSE All-World Developed Asia Pacific ex Japan Index NET of Tax GBP.

In addition, the Group Trustees have made available a lifestyle option for the MEPS category:

- >5 years to retirement monies are invested 100% in the BlackRock 50:50 Global Equity Index, and
- < 5 years to retirement monies are switched and rebalanced 75% into the BlackRock Over 15 years UK Gilt Index Fund and 25% into the Prudential Cash Fund.

The Group Trustees operate a number of AVC policies for final salary members of the Defined Benefit category. The AVC policy available to new AVC payers is provided by Standard Life and offers a broad range of funds including the following lifestyle option, which is the default investment strategy for this arrangement:

- > 5 years to retirement monies are invested 100% in the BlackRock Managed Global Equity 50/50 Fund, and
- < 5 years to retirement monies are switched and rebalanced into the Deposit and Treasury Fund so that at retirement 100% of the fund is invested in this fund.

The range of funds, including the lifestyle option, was chosen by the Group Trustees after taking advice from their investment adviser, Aon. In choosing the Group's investment options, it is the Group Trustees policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and the need for manager diversification.
- The suitability of each asset class for a defined contribution scheme / money purchase arrangement.
- The need for appropriate diversification of asset classes.
- The current and expected future membership of each Section of the 'Group.

### **3. DEFAULT INVESTMENT STRATEGIES**

The Defined Contribution Section of the Group is closed to new entrants.

There are no contributions being made to the EGPS Category and therefore the Group Trustees have not designated a default arrangement for this Category.

Within the MEPS Category, at 6 April 2015 over 80% of members were contributing to the Prudential Discretionary Fund, and therefore this is considered as the default investment arrangement. This fund is reviewed as part of the Group Trustees' annual review of the money purchase arrangements.

The lifestyle option for the Standard Life AVC policy is also reviewed as part of the Group Trustees annual review of the money purchase arrangements.

#### 4. RISK MEASUREMENT AND MANAGEMENT

The Group Trustees consider the following sources of risk:

- Member Understanding – the risk that the Group Trustees do not provide clear, balanced and timely information to members to aid their understanding. The Group Trustees are aware that poor information could lead to members' reasonable expectations not being met.
- Investment Practices – the risk that the range of funds does not meet members' requirements. The range of funds is monitored for both suitability and competitiveness on an ongoing basis.
- Risk of default funds, where provided, being unsuitable for the requirements of some members.
- Manager risk – the risk of fund managers not meeting their objectives. This risk is considered by the Group Trustees and their advisors both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Group Trustees have sought to minimise such risk by ensuring that all advisors and third party service providers are suitably qualified and experienced and that suitable liquidity and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Group Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Group Trustees policy is to review the range of funds offered and the suitability of its approach to a default strategy at least every three years.

These risks are considered as part of each normal strategy review. In addition, the 'Group Trustees measure risk in terms of performance of the assets compared with the benchmarks on a regular basis (at least annually) along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Group Trustees.

#### 5. IMPLEMENTATION

The range of funds available to EGPS Category members is provided through AEGON and to MEPS Category members through Prudential. There is also a range of AVC options from providers selected and monitored by the Group Trustees.

The AEGON and Prudential policies provide funds which are managed using both active and passive approaches. Active management means that they make decisions on the appropriate asset mix and selection of the securities within each fund. Active management may result in periods of out and under performance of the investment markets as a whole. Passive management involves holding a large proportion of the securities in the markets in line with the market weight of each security and should match closely the performance of the investment markets as a whole.

#### 6. GOVERNANCE

The Group Trustees are responsible for the investment of the Group's assets. The Group Trustees take some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Group Trustees have taken into account whether it has the appropriate training and expertise in order to take an informed decision. The Group Trustees have established the following decision making structure:

##### Group Trustees

- Monitor actual returns versus Group investment objective.
- Set structures and processes for carrying out its role.
- Select and monitor planned asset allocation strategy.
- Select and monitor direct investments.
- Select investment advisers and fund managers.
- Decide on appropriate structure for implementing investment strategy.
- Monitor investment advisers and fund managers.
- Make ongoing decisions relevant to the operational principles of the Group's investment strategy.
- Reviews the 'money purchase' fund range and lifestyle options for future contributions.

<p><b>Investment Advisers</b></p> <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Group's assets, including implementation.</li> <li>• Advise on this statement.</li> <li>• Provide any required training.</li> </ul>	<p><b>Platform Providers</b></p> <ul style="list-style-type: none"> <li>• Manage the allocation of certain of the funds between underlying fund managers, in accordance with agreed benchmarks and rebalancing protocols.</li> <li>• Operate within the terms of this statement and their written contracts.</li> </ul>
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The Group Trustees have established an Investment Committee, whose primary responsibility is to consider all matters related to the implementation of the Group's investment strategy, to take decisions on matters delegated to the Committee by the Board and to make recommendations in respect of matters to be decided by the Board. The membership and terms of reference for the Committee are reviewed from time to time, and include reviewing and monitoring money purchase arrangements.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Group Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments the Group Trustees will obtain written advice and consider whether future decisions about those investments should be delegated to the fund managers.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Group Trustees (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

## **7. RELATIONSHIP WITH ADVISERS**

Aon Hewitt Limited (Aon) has been selected as investment adviser to the Group Trustees for money purchase arrangements. It operates under an agreement to provide a service which ensures the Group Trustees are fully briefed to take decisions itself and to monitor those it delegates.

Aon has the knowledge and experience required under the Pensions Act 1995.

The Group Trustees expect the Providers to handle the assets delegated to them under the terms of the contract and to give effect to the principles in this statement so far as is reasonably practicable.

## **8. SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS**

The Group Trustees' primary consideration in formulating the investment options is to act in the best financial interests of the members of the Group, and to seek the best return that is consistent with taking a prudent/appropriate level of risk. However, the Group Trustees recognise that social, environmental and ethical considerations can have an impact on financial performance.

The Group Trustees have a long-term time horizon in relation to the Group's investment strategy and therefore acknowledge the importance of being a responsible investor. The Group Trustees consider responsible investment to be the integration of environmental, social and governance considerations into investment decisions in respect of the Group's investment portfolio where financial risk and / or return is, or could be, materially affected.

In setting and implementing the Group's investment strategy, the Group Trustees do not explicitly take into account the views of members and beneficiaries in relation to ethical considerations, social and environmental impact or present and future quality of life matters (defined as 'non-financial matters').

The Group assets are typically held in pooled arrangements, managed by investment managers who are in a position to exert significant influence on the companies in which they invest on the Group's behalf.

The Group Trustees therefore expect the appointed investment managers to integrate social, environmental and governance considerations (including, but not limited to, climate change) and opportunities within their investment process as applied to the assets of the Group.

In relation to corporate governance and activism (including the way in which any rights attaching to investments, such as voting rights, are exercised) the Group Trustees support the policies set out in the Myners' Report and Statement of Principles drawn up by the Institutional Shareholders' Committee and expect UK-regulated investment managers to comply with these principles where possible.

## **9. EXERCISE OF RIGHTS**

The Group Trustees believe that the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager, to whom the day to day responsibilities have been delegated, in the interests of investors. The Trustee believes that this will ultimately be in the best interests of the members.

## **10. REALISATION OF INVESTMENTS**

The Group's assets are invested in daily priced pooled investment funds, and the vast majority of the underlying assets are invested in quoted markets. The platform provider can be required to realise investments as soon as it becomes appropriate to do so.

## **11. REVIEW**

The Group Trustees will review this Statement at least every three years and immediately following any significant change in investment policy or the demographic profile of relevant members. The Group Trustees will take investment advice and consult with the Sponsoring Employer over any changes to this Statement.

Dated: 25 July 2019

Signed:

**Martine Trouard-Riolle**

**On behalf of Capital Cranfield Pension Trustees Limited - Chair of the Trustee**