

Marshall Group Executive Pension Plan (the 'Plan') Chairman's Statement

Annual Governance Statement by the Chair of the Trustees for the year ending 5 April 2019

Introduction

As Chair of the Trustees of the Plan, I am required to provide members with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet the governance standards for Defined Contribution (DC) schemes. The information included in my statement is set out in law and regulation.

Certain governance standards apply to Defined contribution (DC) pension arrangements like the DC Section of the Plan, together with the Additional Voluntary Contribution (AVC) arrangements attached to the Defined Benefit section. These are designed to help members achieve good outcomes from their pension savings.

This has been a year where the Trustees have worked with the Marshall Group (the Group) to consider and implement 'Project Hercules', the Group's strategy for future pension arrangements for certain of its employees. This entailed the Trustees considering detailed investment and legal advice as required by legislation, following which most members' funds held with Standard Life under the Plan were transitioned on a 'non consent' basis to the Legal & General Master Trust (selected by the Group for future contributions for all employees). The final tranche of Standard Life funds was transferred to L&G in early June 2019. A small number of members have funds remaining with Standard Life to preserve other benefits they hold within the Plan.

The funds within the Plan which have valuable guarantees attaching (the Aviva With Profit funds with a 4% pa guarantee, the Aviva 1982 benefits with annuity conversion guarantees and Equitable Life With Profit policies) have also been left in situ to avoid disturbing the guarantees. The Trustees will continue to monitor and govern the residual DC funds within the Plan.

The Trustees are committed to having high governance standards and meet quarterly to monitor the controls and processes in respect of the administration relating to the Plan's DC funds.

I welcome this opportunity to explain the steps the Trustees take to ensure the DC Section and AVCs are run as effectively as possible. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please let me know.

Default investment arrangements

A default investment arrangement was set up by the Trustees and provided for members who did not choose an investment option for their contributions. Members could 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 arrangements. We take professional advice from regulated investment advisers.

The Plan offers DC members four lifestyle arrangements:

Options Open;
Lump Sum Withdrawal;
Drawdown; and
Annuity Purchase.

Members who joined the Plan and did not make an active investment choice for their contributions are placed into the default investment strategy. The Trustees chose the Options Open Lifestyle as the default investment arrangement for the Plan. The Options Open Lifestyle's pre-retirement investment mix represented the most neutral option where the member has not made a specific choice to align their Member Account to either cash or annuity purchase. The Trustees therefore view it as being the one most appropriate for the majority of members who have not made a decision on how they will want to take their benefits at retirement.

Performance of the Plan's funds, including those underlying the default investment arrangement, were monitored and reported to the Trustees on a quarterly basis.

A review of the Statement of Investment (SIP) setting out the investment strategy for the Plan and the default investment arrangement has been undertaken at least once every three years.

Member borne charges and transaction costs

The Trustees are required to monitor the costs associated with the Plan, which are paid by the members. These costs comprise charges and transaction costs.

- Charges, such as the Annual Management Charge ("AMC" – the annual fee charged by the investment manager for investing in a fund), as well as additional expenses together comprise the Total Expense Ratio (TER), which is the total cost of investing in the fund.
- The TER information is normally readily available as these charges are explicit and are deducted as a percentage of members' funds.
- Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority (FCA) rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018. The transaction costs shown below are calculated using the standardised method set by the FCA.

Transaction costs are largely the result of buying and selling investments in a fund therefore actively managed funds, such as the Standard Life Property Pension Fund, will usually have higher transaction costs than passively managed funds, such as the Standard Life Vanguard FTSE Developed World ex UK Equity Index, that invest in more liquid assets.

As defined by the Financial Conduct Authority, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time of the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'. This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because

something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else. The tables below set out the TERs that were applicable to the funds available for members to invest in over the period from 6 April 2018 to 5 April 2019.

Funds available from 6 April 2018 to 5 April 2019

The Options Open Lifestyle, had levied a TER that ranged from 0.51% to 0.55% p.a. depending on the member's period to retirement. Importantly, the TER range for the default arrangement was below the charge cap set by the Regulations of 0.75% p.a. The Trustees also made available three alternative lifestyle strategies and a range of 14 alternative self-select funds which may be chosen by members as an alternative to the default arrangement. A full breakdown of the TERs and transaction costs applicable to the investment options available to members over the period are listed in the table below.

Fund		TER (% p.a. as at 5 April 2019)	Transaction Costs (p.a.)	Total costs (p.a.)
Marshall Lifestyle Strategies				
Options Open Lifestyle (default arrangement)		0.55 (Growth stage)	0.09	0.64
		0.51 (Retirement)	0.09	0.60
Lump Sum Withdrawal Lifestyle		0.55 (Growth stage)	0.09	0.64
		0.43 (Retirement)	0.10	0.53
Drawdown Lifestyle		0.55 (Growth stage)	0.09	0.64
		0.52 (Retirement)	0.09	0.61
Annuity Purchase Lifestyle		0.55 (Growth stage)	0.09	0.64
		0.44 (Retirement)	0.08	0.52
Self-Select Funds				
Equity	SL Vanguard FTSE Developed World ex UK Equity Index	0.34	0.00	0.34
	SL iShares UK Equity Index	0.35	0.00	0.35
	SL Stewart Investors Global Emerging Markets Leaders	1.23	0.33	1.56
	SL HSBC Islamic Global Equity	0.63	0.00	0.63
	SL Vanguard SRI Global Stock	0.34	0.00	0.34

Multi-Asset	SL Newton Real Return	1.12	0.19	1.31
	Standard Life Marshall Growth	0.40	0.06	0.46
	Standard Life Marshall Diversified Growth	1.02	0.17	1.19
Fixed Interest	Standard Life Marshall Pre-Retirement	0.34	0.05	0.39
	SL iShares UK Gilts All Stocks Index	0.35	0.00	0.35
	Standard Life Long Corporate Bond	0.33	0.05	0.38
	SL Vanguard UK Inflation Linked Gilt Index	0.34	0.00	0.34
Cash	Standard Life Deposit and Treasury	0.33	0.09	0.42
Property	Standard Life Property	0.33	0.09	0.42

Source: Standard Life

Legacy Funds

Separately, some members remain invested in the Aviva With Profit fund and the Aviva 1982 policy. These are legacy arrangements and are closed to new members and new contributions. Aviva have confirmed there is no total expense ratio attaching to either the Aviva With-Profits Fund and the 1982 policy and the charges are implicit which means the costs are not directly identifiable.

Source: Aviva

AVC Arrangements

In relation to the legacy funds available, there are arrangements available with Equitable Life. The charges related to these arrangements are shown below.

Provider	Fund	TER (p.a. as at 5 April 2019)	Transaction Costs (p.a.)	Total costs (p.a.)
Equitable Life	With-Profits Fund	1.50	0.05	1.55

Source: Equitable Life

Members with Equitable Life AVC funds are invested in the With-Profits Fund, which has no annual management charge but Equitable Life allows for a charge of 1% 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. A similar process will occur within the Aviva With Profits Fund.

The Trustees take a proportionate approach to reviewing these investments based on the size of the funds invested compared with the overall value of benefits that the members hold within the Scheme. In addition, the Trustees note that both Equitable Life and Aviva have a With-Profits Committee for their With-Profits funds, who consider matters affecting the interests of the policyholders within each fund respectively, including fair pay-outs.

Illustrative effect of costs and charges

The Trustees are also required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure"). Standard Life have produced the following illustrative examples to demonstrate the effect of the above costs and charges for investment strategies representative of the Plan's membership.

Year	Options Open Lifestyle (default)		SL Vanguard FTSE Developed World Index ex UK Equity Index		SL Long Corporate Bond Fund		SL Deposit & Treasury Pension Fund	
	Before charges	After all charges are taken	Before charges	After all charges are taken	Before charges	After all charges are taken	Before charges	After all charges are taken
1	£15,800	£15,800	£15,900	£15,800	£15,600	£15,500	£15,400	£15,400
3	£28,200	£27,900	£28,500	£28,200	£27,100	£26,800	£26,600	£26,300
5	£41,600	£41,000	£42,300	£41,600	£39,100	£38,500	£37,900	£37,400
10	£79,700	£77,300	£82,000	£79,600	£71,200	£69,200	£67,400	£65,600
15	£125,000	£119,000	£130,000	£124,000	£106,000	£102,000	£98,400	£94,700
20	£179,000	£169,000	£189,000	£178,000	£145,000	£137,000	£131,000	£124,000
25	£241,000	£225,000	£259,000	£242,000	£187,000	£176,000	£165,000	£156,000
30	£299,000	£275,000	£344,000	£316,000	£233,000	£217,000	£202,000	£188,000
NRD	£299,000	£275,000	£344,000	£316,000	£233,000	£217,000	£202,000	£188,000

Source: Standard Life

The following assumptions have been made for the purposes of the above illustration:

1. Values are not guaranteed.
2. The starting pot size is assumed to be £10,000.
3. Projected values are shown in today's terms and do not need to be reduced further for the effect of inflation
4. Inflation is assumed to be 2% each year
5. The starting salary is assumed to be £35,000.

6. Contributions are assumed for a typical active member joining the Plan at age 35 with contributions being made to age 65 based on the Plan contribution structure of 8% employee and 8% employer.
7. Contributions are assumed to increase by 3.5% each year
8. Assumed investment growth rates are based on the fund(s), shown below;
 - *Options Open Lifestyle (Standard Life Passive Plus III Pension Fund – 4.5%, Standard Life Pre Retirement (Passive Plus Annuity) Pension Fund – 4.0%, Standard Life At Retirement (Annuity) Pension Fund – 2.0%)*
 - *SL Vanguard FTSE Developed World Index ex UK Equity Index – 5.0%*
 - *SL Long Corporate Bond Fund – 2.5%*
 - *SL Deposit & Treasury Pension Fund – 1.5%*

The transaction costs, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available. Currently, less than 5 years of transaction cost information is available from providers, which may result in greater volatility in these costs in the short term. It is anticipated that once information is available over longer periods, the assumptions made in respect of these costs will demonstrate less volatility.

The charge levied by the default investment strategy was within the charge cap for the period under review. The Trustees consider the costs and charges of the default arrangement and the self-select options to be appropriate for the size of the Plan and comparable to charges levied by other providers, based on the investment strategy review undertaken in 2018/19 as part of the strategy exercise, which required the Trustees to compare the Plan's investments with those available under the L&G Master Trust.

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 investment options and benefits offered to members with DC benefits represent good value for members when comparing this to other options available in the market.

There is no legal definition of 'good value' and so the process of determining good value is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory advice.

We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members. The Trustees believe that the charges were reasonable and the funds performed satisfactorily relative to their benchmarks.

The Trustees have carried out a formal "good value" assessment focussing on the following criteria:

- 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); and
- Charges applied to members.

The Trustees have therefore assessed the above criteria, each of which contains several components. The Trustees have taken independent advice from their pensions consultants, Buck, regarding their assessment of good value to provide input on the method and the Trustees' analysis. Buck also provided an assessment against other similar pension schemes. Based on our assessment overall we have concluded that the DC options within the Plan have represented good value for money for members because:

- The Plan is well run as the Trustees have a broad knowledge base with many years in trusteeship;
- The Plan offers timely and accurate administration. Standard Life has SLAs in place for money handling and other processes as shown below. Quarterly administration reports are provided to the Trustee board by both Standard Life and Aviva and feedback on improvements has been actioned. The Trustees continue to monitor SLAs;
- Buck have carried out a quarterly investment performance review and are comfortable the investments have performed well over most time periods relative to their respective benchmarks. An appropriate and excellent fund range has been offered to members with alternative lifestyle strategies available to the new flexibilities with the aim of members achieving their chosen retirement outcome. There are funds available in a broad range of asset classes including specialist funds.
- The Plan communications are compliant and accurate and reviewed by the Trustees on a regular basis.
- The information and online tools made available to members by Standard Life is clear and accessible.

Nevertheless before the employer's decision to move provider to Legal & General the Trustees decided to transfer legacy funds to that provider.

Trustee knowledge and understanding

The Plan is overseen by a board of individual trustees. The Trustees are drawn from a variety of backgrounds with skills and knowledge which complement each other and provide a diverse Trustee Board. Bill Dastur is also Chair of the Trustees of two other Marshall of Cambridge pension schemes. He has a wealth of knowledge and experience of trusteeship which to bring to the Trustee board. In this way he gains a greater insight of pensions and is aware of the key items for the Trustees to cover.

The law requires the Trustees to be conversant with the Plan'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 investment to be able to run the Plan effectively.

The Trustees meet all the knowledge and understanding requirements and understand the Plan and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Plan, 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 Plan documents.

Training and development responsibilities are taken seriously and a record kept of the training completed by each Trustee. During the Plan year, the Trustees have met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for trustee knowledge and understanding).

During the Plan year the following training and development activities have taken place;

- Training is regularly reviewed to identify gaps in the knowledge and understanding across the Trustees as a whole. The training carried out during the year included:
 - General Data Protection Regulation training undertaken by the Trustees' legal advisers, Shoosmiths; and
 - Responsible Investment training undertaken by Buck.

- All the Trustees have either completed the Pensions Regulator's toolkit training. New Trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board.
- The Trustees receive 'on the job' training. This means that as new topics arise, the professional advisers attending the Trustee meeting will provide training so that the Trustees may engage in an informed manner.
- Following the issue by the Pensions Regulator in July 2016 of the new code of practice for trustees of pension schemes providing money purchase benefits (the DC code), the Trustees have assessed the DC Section of the Plan against the standards set out in the DC code and related guides and have established an action plan to ensure we can demonstrate that we are offering a quality scheme.
- Relevant advisers are in attendance at meetings and in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Plan or in respect of pension or trust law.
- The Trustees have reviewed the Pensions Regulator's 21st Century Trusteeship initiative, aimed at raising governance standards to support the delivery of better outcomes to members and as a result the Trustees have a strategic plan.
- The Trustees are also provided with Buck's quarterly Topical Digest which is discussed at every meeting. This covers recent and ongoing developments including legal and regulatory matters relevant to the trustees of defined contribution pension schemes.

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.

Core financial transactions and Administration

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 DC Sections and AVCs;
- transferring assets relating to members into and out of the DC Sections and AVCs;
- transferring assets between different investments within the DC Sections and AVCs; and
- making payments from the DC Sections and AVCs 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 our administrator. Our DC Plan administration was delivered in the year by Standard Life, Aviva and Equitable Life.

There is a service level agreement in place between the Trustees and their administrator to ensure accurate and timely processing of the core financial transactions for which they are responsible. The administrator is 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 Plan's trust deed and rules. 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 quarterly 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. Examples of the service level standards agreed with the main administrator, Standard Life, are set out below:

Work Item	Service level (Business days)
Investment change	10
Leaver process	Automated overnight process
Retirement quotation	10
Retirement settle	10
Transfer quotation	10
Transfer settle	10

Any mistakes or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

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

We are pleased that, in the last Plan year, there have been no material administration service issues which need to be reported here by the Trustees and all core financial transactions have been processed within an agreed time.

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

Signed:

Date:

WCM Dastur
(Chairman of Trustees)

Appendix – Statement of Investment Principles