

# GROUP TRUSTEES’ STATEMENT ON DC GOVERNANCE – SCHEME YEAR ENDED 31 MARCH 2021

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. The DC funds were transferred out of the Group in January 2021 therefore this is the last full DC Governance Statement the Group Trustee will produce.

This statement covers governance and charges disclosures in relation to the items set out below for the period 1 April 2020 to 31 March 2021:

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

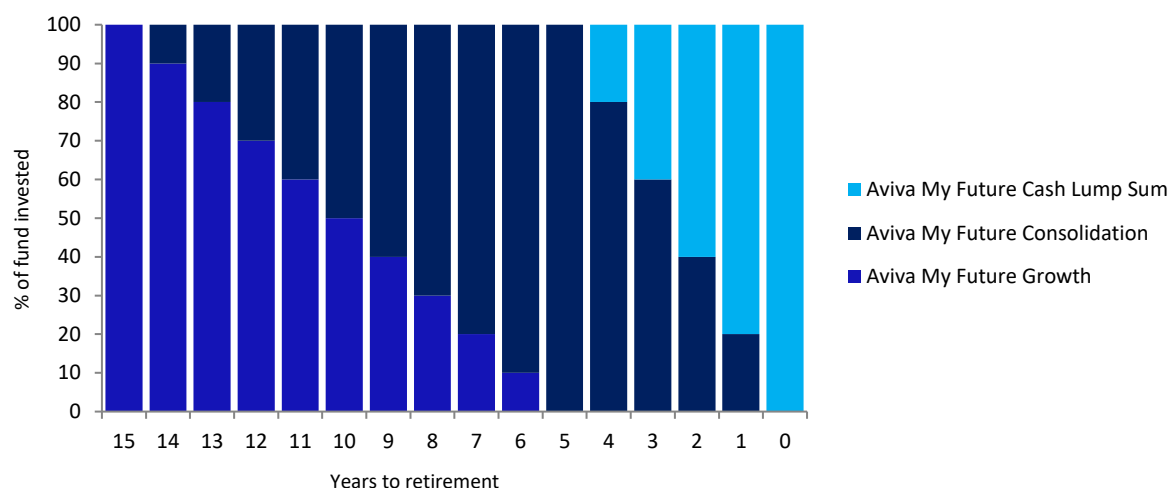
## The Default Investment Strategy

The MEPS Category of the Group was used as a Qualifying Scheme for auto-enrolment purposes for active members until 30 September 2020.

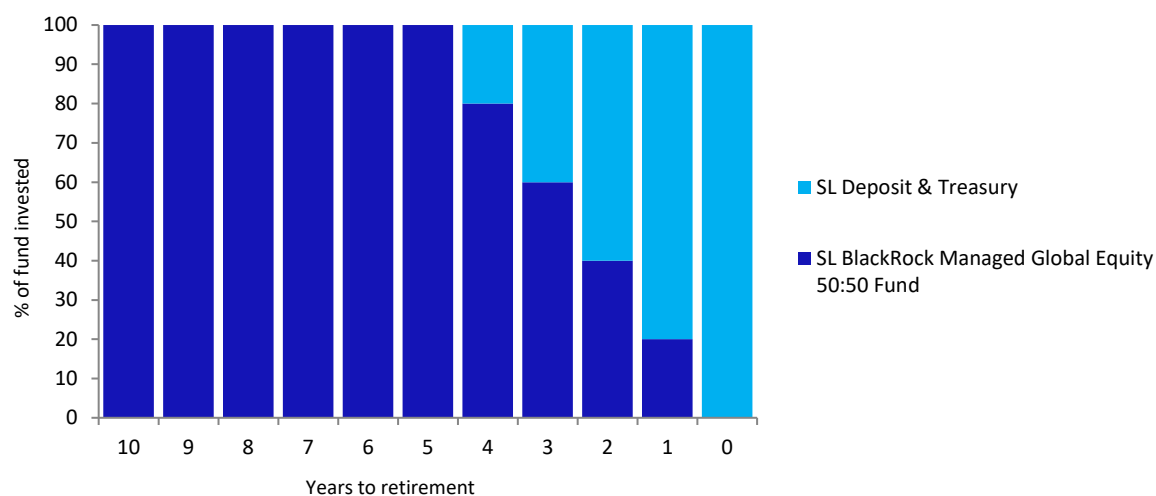
A default investment strategy is one in which members contributions are automatically invested if they do not select their own investment funds from the available range. The DC Category of the Group has been closed to new entrants since 2005 and therefore the Category does not have a default investment strategy as defined by the Regulations i.e. an investment strategy into which members are automatically enrolled. However a strategy can be deemed a default investment strategy if 80% or more of members have chosen to invest in it. Therefore by this measure the Prudential Discretionary Fund, which had more than 80% of members invested in it, is the deemed default investment strategy for the MEPS Category.

The AVC arrangements do not have a default investment strategy, as defined by the Regulations. However the AVC arrangements with Aviva and Standard Life each has a lifestyle strategy, into which members' AVCs are invested, if members do not choose alternative funds and these may therefore be considered to be defaults in a more general sense. The structures of these lifestyle strategies are illustrated in the charts below.

Aviva My Future Target Cash Lump Sum Lifestyle Strategy:



### Standard Life EON Lifestyle Strategy



Both lifestyle strategies aim to provide the greater opportunity for growth whilst members are further away from retirement age. They then reduce investment risk by switching from 'growth' investments to lower risk investments during the approach to the member's selected retirement age. At retirement the way both strategies are invested is well suited to members who take their AVC funds as a cash lump sum.

The investment options available to members of the DC Categories and the AVC arrangements 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 and the quality and suitability of investment options including liquidity, fund performance and charges. The last reviews of the DC Categories and the AVC arrangements were carried out on 10 June 2020.

During the second half of 2019 and the first half of 2020, the Group Trustees carried out a full review of the market to select a Master Trust to which the assets of the DC Categories would be transferred. More details about this are included in the value assessment section of this Statement.

The Group Trustees also carried out a full market review of potential AVC providers, to determine if there was scope to improve value for members. As a result of the market review, the Group Trustees established a new AVC arrangement with Aviva and this was made available to members during the third quarter of 2020, as planned. Again, more details about this are included in the value assessment section of this Statement.

### 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 (this applies to the EGPS Category and the legacy Aviva, Royal London and Utmost Life and Pensions AVC arrangements). RPMI do not currently report on fund switch transactions. The Group Trustees have considered whether RPMI should report on fund switches and concluded that, as members of these arrangements switch funds very rarely, the transaction reporting that is in place is appropriate.

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

### Charges and transaction costs paid by members

The Group Trustees regularly monitor:

- (i) explicit charges such as the Annual Management Charge ('AMC') and additional expenses that are disclosed by fund managers 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.

The 'deemed default' for the MEPS Category (the Prudential Discretionary Fund) is subject to the charge cap of 0.75% p.a. The Prudential Discretionary Fund complied with the charge cap throughout 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. This information has been supplied by the providers. Transaction costs shown are the latest available at the time of writing this statement. These are for the 12-month period to 31 December 2020 for the MEPS Category and for the 12-month period to 31 March 2021 for the EGPS Category.

Members were only invested in these funds up until the transfer to the Master Trust took place, in January 2021.

MEPS Category (Prudential DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/12/2020)
Cash	0.55	0.55	0.00
Discretionary	0.75	0.75	0.17
Fixed Interest	0.65	0.65	-0.24
Index Linked	0.65	0.65	0.13
Property	0.75	1.32	0.02

EGPS Category (AEGON DC arrangement)	AMC (% p.a.)	TER (% p.a.)	Transaction costs (% p.a.) (12m to 31/03/2021)
DC Balanced Growth	0.75	0.75	0.16
DC 70/30 Global Growth	0.75	0.75	0.18
DC Cash	0.30	0.33	0.01
DC Pre-Retirement	0.50	0.50	0.04

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.

Transaction costs shown are the latest available at the time of writing this statement. These are for the 12-month period to 31 December 2020 for all AVC arrangements, except Standard Life and Utmost Life and Pensions, for which transaction costs are for the 12-month period to 31 March 2021.

Members may not have been invested in funds throughout this period, as the 'new' Aviva funds were only available from September 2020, and members' existing funds were transferred from Prudential, Royal London, Standard Life and Utmost Life and Pensions to the new Aviva funds during Q4 2020.

Aviva have not provided any transaction costs for the 'legacy' AVC arrangement, or for the BlackRock Corporate Bond All Stocks Tracker Fund in the 'new' arrangement. The Group Trustees will continue to request this information from Aviva, and remind Aviva that provision of this information is a regulatory requirement.

<b>'New' Aviva AVC arrangement</b>	<b>AMC (% p.a.)</b>	<b>TER (% p.a.)</b>	<b>Transaction costs (% p.a.) (12m to 31/12/2020)</b>
My Future Cash Lump Sum lifestyle strategy	0.38	0.38	0.09 - 0.20 <sup>1</sup>
BlackRock (50:50) Global Equity	0.32	0.32	0.13
BlackRock All Stocks UK Gilt	0.32	0.32	0.00
BlackRock Corporate Bond All Stocks	0.32	0.32	Not available
BlackRock European Equity	0.32	0.32	0.11
BlackRock Japanese Equity	0.32	0.32	0.15
BlackRock Pacific Rim Equity	0.32	0.32	0.09
BlackRock Sterling Liquidity	0.32	0.32	0.01
BlackRock UK Equity	0.32	0.32	0.42
BlackRock US Equity	0.32	0.32	0.10
BlackRock World (Ex-UK) Equity	0.32	0.32	0.07
Global Equity	0.42	0.45	0.18
Multi-Asset Growth	0.42	0.42	0.03
Stewardship Managed	0.42	0.42	0.21
UK Equity	0.42	0.42	0.28

<b>Standard Life AVC arrangement</b>	<b>AMC (% p.a.)</b>	<b>TER (% p.a.)</b>	<b>Transaction costs (% p.a.) (12m to 31/03/2021)</b>
E.ON Lifestyle Strategy	0.60	0.61 – 0.62 <sup>1</sup>	0.07 – 0.15 <sup>1</sup>
Aberdeen Life Sterling Credit	0.95	1.05	0.00
Annuity Targeting	0.60	0.61	0.09
Asia Pacific ex Japan Equity	0.60	0.72	0.00
At Retirement (Multi Asset Universal)	0.60	0.64	0.22
Baillie Gifford UK and Worldwide Equity	0.90	0.93	0.21
Baillie Gifford UK Equity Core	0.90	0.93	0.11
BlackRock Managed (50:50) Global Equity	0.60	0.62	0.15
BNY Mellon UK Equity	0.90	1.02	0.09
Deposit & Treasury	0.60	0.61	0.07
Ethical	0.60	0.61	0.21 <sup>2</sup>
European Equity	0.60	0.62	0.06
Far East Equity	0.60	0.68	0.12
FTSE Tracker	0.60	0.61	0.08
Global Equity 50:50	0.60	0.61	0.41
Index Linked Bond	0.60	0.61	0.11
International Equity	0.60	0.63	0.11
iShares UK Equity Index	0.60	0.62	0.38
Japanese Equity	0.60	0.63	0.16
Managed	0.60	0.62	0.16
Mixed Bond	0.60	0.61	0.06
Multi Asset Managed (20-60% Shares)	0.60	0.62	0.15
Money Market	0.60	0.61	0.00
North American Equity	0.60	0.61	0.09 <sup>2</sup>
Property	0.60	0.63	0.17
Aberdeen Standard Investments Global Absolute Return Strategies	1.02	1.12	0.74
Stock Exchange	0.60	0.63	0.11
UK Equity	0.60	0.61	0.15
Pension With Profits Fund	1.75	1.75	0.14 <sup>2</sup>

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

<b>Prudential AVC arrangement</b>	<b>AMC (% p.a.)</b>	<b>TER (% p.a.)</b>	<b>Transaction costs (% p.a.) (12m to 31/12/2020)</b>
Deposit	Not applicable <sup>4</sup>	Not applicable <sup>4</sup>	0.00
Discretionary	0.75	0.78	0.17
Fixed Interest	0.75	0.76	0.00
Global Equity	0.75	0.76	0.12
International Equity	0.75	0.76	0.21
UK Equity Passive	0.65	0.66	0.07
UK Equity	0.75	0.76	0.02
With Profits	0.8 (estimate) <sup>3</sup>	0.98 (estimate) <sup>3</sup>	0.13

<b>Royal London AVC arrangement</b>	<b>AMC (% p.a.)</b>	<b>TER (% p.a.)</b>	<b>Transaction costs (% p.a.) (12m to 31/12/2020)</b>
E.ON Lifestyle Strategy	0.59	0.59	0.00 – 0.01 <sup>1</sup>
BlackRock ACS Global Equity Index (50:50)	0.59	0.59	0.01
BlackRock ACS UK Equity Index	0.59	0.59	0.00
Deposit	0.59	0.59	0.00
Index Linked	0.59	0.59	0.00
Sustainable Leaders	0.59	0.59	0.41

<b>Utmost Life and Pensions (formerly Equitable Life) AVC arrangement</b>	<b>AMC (% p.a.)</b>	<b>TER (% p.a.)</b>	<b>Transaction costs (% p.a.) (12m to 31/03/2021)</b>
Secure Cash	0.50	0.50	0.00 <sup>5</sup>
Multi-Asset Moderate	0.75	0.75	0.41
Multi-Asset Cautious	0.75	0.75	0.50

#### Notes

<sup>1</sup> Depending upon term to retirement.

<sup>2</sup> Although not all the data required to calculate the transaction costs for these funds was obtainable from the fund managers, less than 0.1% was missing.

<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 provide any indication of the level of charges on its With Profits Funds.

<sup>4</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.

<sup>5</sup> The Secure Cash Fund was a temporary holding for assets transferred from the Equitable Life With Profits Fund. It closed on 31 December 2020 therefore the transaction costs shown are for the 12-month period to 31 December 2020.

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 this statement to avoid potentially understating costs.

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

The Regulations require the Group Trustees 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 Group Trustees have taken account of the statutory guidance and have sought legal advice on this matter. As the DC funds are no longer in the Group, the Group Trustees have concluded it would be misleading to members to illustrate the effect of future costs and charges on DC funds. For this reason, this statement does not include any illustrations. Former members of the DC Categories will be able to check the effect of costs and charges on their funds within the Aviva Master Trust via the Chair's Statement for the Aviva Master Trust.

#### Value assessment

The 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. In previous years, the Group Trustees have used a cost-benefit analysis framework in order to assess whether the member borne charges and

transaction costs deliver good value for members. The Group Trustees have not carried out this cost-benefit analysis for the period covered by this statement, as they had already identified that the bulk transfer of funds from the Group to the Aviva Master Trust, which applied to all members with assets in the Categories and was concluded in January 2021, was likely to improve value for members.

The key ways in which the transfer to the Master Trust had the potential to improve value for members were identified as:

- Economies of scale - the far larger size of the Master Trust means that it is able to provide investment funds at a lower cost to members than the Group can.
- Direct access to the pension freedoms options at retirement - The Master Trust has the systems to be able to offer members full access to the pension freedoms so, for example, members are able to drawdown income from their fund within the Master Trust when they take benefits, if they wish, and their funds will remain subject to the competitive charges negotiated for the arrangement at outset by the Group Trustees.
- Access to information – members are able to register to access details of their pension fund and make changes online or using the Aviva App.

As a result of the benchmarking exercise they carried out on the AVC arrangements, and the subsequent provider review, the Group Trustees identified there was potential to improve value for AVC members by appointing a new AVC provider. The Group Trustees appointed Aviva to provide the new AVC arrangement. It has the potential to improve value for members as it is subject to lower charges than the Group's other AVC arrangements and provides access to a range of investment options recommended by the Group Trustees' investment advisers. All AVCs have been paid to this new arrangement since the August 2020 payroll. Members were also offered the opportunity to transfer existing funds to the new Aviva arrangement.

#### **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 more than ten years across a number of different pension schemes with DC sections.

Over the period covered by this Statement, the key focus of the Group Trustees has been the completion of a project to implement the outcome of a review of the current DC and AVC arrangements, including the transfer of the assets of the DC Categories to the Aviva Master Trust and the establishment of a new AVC arrangement with Aviva. The Group Trustees sought extensive investment and legal advice throughout this project.

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 26 August 2021

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

**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**