

## *DC Chair's Governance Statement, covering the period from 1 July 2017 to 30 June 2018*

### **1. Introduction**

Governance requirements apply to defined contribution ("DC") pension arrangements like the Total UK Pension Plan ("the Plan"), to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (including the auto-select arrangement and self-select fund range);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effects of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 July 2017 to 30 June 2018.

### **2. Auto-select arrangement**

The default investment arrangement (the "auto-select arrangement") is designed for members who join the Plan and do not choose an investment option. The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the auto-select arrangement.

When deciding on the Plan's investment strategy, the Trustee recognises that most members do not take active investment decisions and instead invest in the auto-select arrangement. After taking advice, the Trustee decided to make the auto-select arrangement a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach retirement date.

Details of the objectives and the Trustee's policies regarding the auto-select arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Plan's SIP is attached to this Statement.

The default arrangement was not reviewed during the period covered by this Statement. It was last reviewed in 2016. The Trustee regularly monitors the performance of the default arrangement and will formally review both this and the strategy at least every three years (the next review is intended to take place in 2019) or immediately following

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any significant change in investment policy or the Plan's member profile. The Plan's auto-select investment strategy was changed following this general review in 2016, and has since been changed to target income drawdown at retirement. The aims and objectives of the default arrangement, as stated in the SIP, are as follows:

The auto-select (default) strategy allows members to make use of new pension flexibilities, leaving their benefits invested and drawing down income as it is required in a series of cash withdrawals.

The auto-select strategy initially invests in global equities until twenty-five years before retirement where it starts gradually introducing an allocation to a diversified multi asset fund. At five years before retirement the global equities allocation is phased out and the diversified multi asset fund allocation reduced in favour of a 25% cash allocation, which allows members to take their tax-free cash allowance at retirement.

The auto-select arrangement is currently broadly meeting its objectives to reduce volatility as members approach retirement, whilst still achieving investment growth. The Trustee monitors the risk and return profile of the auto-select strategy on a quarterly basis.

Lifestyle strategies targeting a cash lump sum and annuity purchase at retirement are also offered to members. These lifestyles share a common growth phase with the auto-select strategy, only deviating to their respective retirement targets from five years to retirement.

### **3. Requirements for processing financial transactions**

Processing of core financial transactions (such as the investment of contributions, processing transfers in and out of the Plan, and payments to members/beneficiaries) is carried out by the administrators of the Plan, Buck.

The Plan's administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Plan are processed promptly and accurately.

The Plan has a service level agreement ("SLA") in place with the administrator which covers the accuracy and timeliness of all core transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

- preparation of a quarterly administration report which is presented to the Trustee and includes performance against SLAs covering timeliness for core transactions;
- a task-logging system which is reviewed weekly for forthcoming workloads, with tasks allocated daily;
- daily review of bank balances by the treasury team;

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- monthly cash reconciliation; and
- peer review of all monetary transactions with authorisation required from senior administrator or team leader (transactions less than £250,000) or 2 senior administrators and/or team leaders (transactions over £250,000), with each transaction reviewed and released for payment by a treasury administrator under final authorisation by the Administration Manager (or more senior staff).

The Trustee receives quarterly reports about the administrator's performance. These reports include membership statistics, administrative work details and performance against SLAs, financial reporting and key events (such as member complaints). The Trustee uses these reports to ensure that core financial transactions, as well as other key administrative processes, are completed accurately and promptly. If any errors or unreasonable delays or responses are identified, the Trustee holds the administrator to account and seeks to ensure that such issues are rectified and prevented from reoccurring.

Based on information provided by the administrators, the Trustee is satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the year to 30 June 2018.

The Trustee is also satisfied that there have been no administration issues during the period covered by this governance Statement. All errors and member complaints over the period were resolved and closed off by the administrator's compliance department.

#### **4. Member-borne charges and transaction costs**

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs). This is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude administration costs since these are not met by members.

The Trustee is also required to disclose the level of any transaction costs. These are incurred when the Plan's investment managers buy and sell assets within funds, but are exclusive of any costs incurred when members invest in and switch between funds.

The charges and transaction costs have been supplied by Legal & General, one of the Plan's investment managers and appointed investment platform provider. When

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#### 4.1. Auto-select arrangement

The auto-select arrangement is the Drawdown Lifestyle. The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their retirement date. This means that the level of charges and transaction costs will vary depending on how members are to retirement and in which fund they are invested.

For the period covered by this Statement, annual charges and transaction costs are set out in the table below.

#### Auto-select arrangement (Drawdown Lifestyle) charges and transaction costs

Years to retirement	Annual charge	Transaction costs
25 or more years to retirement	0.08%	0.00%
20 years to retirement	0.12%	0.00%
15 years to retirement	0.17%	0.01%
10 years to retirement	0.22%	0.01%
5 years to retirement	0.27%	0.01%
At retirement	0.28%	0.01%

#### 4.2. Self-select options

In addition to the default lifestyle, members also have the option to invest in two other lifestyles, targeting annuity purchase and cash withdrawal. The annual charges for these lifestyles during the period covered by this Statement are set out in the tables below.

#### Annuity Lifestyle charges and transaction costs

Years to retirement	Annual charge	Transaction costs
25 or more years to retirement	0.08%	0.00%
20 years to retirement	0.12%	0.00%
15 years to retirement	0.17%	0.01%
10 years to retirement	0.22%	0.01%
5 years to retirement	0.27%	0.01%
At retirement	0.06%	0.00%

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### Cash Lifestyle charges and transaction costs

Years to retirement	Annual charge	Transaction costs
25 or more years to retirement	0.08%	0.00%
20 years to retirement	0.13%	0.00%
15 years to retirement	0.17%	0.01%
10 years to retirement	0.22%	0.01%
5 years to retirement	0.27%	0.01%
At retirement	0.11%	0.00%

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

### Self-select fund charges and transaction costs

Manager – Fund name	Annual charge	Transaction costs
<b>Total Global Equity Fund</b>	0.08%	-0.01%
Total Overseas Equity Fund	0.09%	-0.01%
Total UK Equity Fund	0.05%	-0.03%
Total Corporate Bond Fund	0.07%	-0.06%
Total Fixed Interest Gilt Fund	0.04%	-0.06%
Total Index-Linked Gilt Fund	0.04%	-0.01%
<b>Total Diversified Multi-Asset Fund</b>	0.34%	0.01%
<b>Total Cash Fund</b>	0.11%	0.00%

The method used to calculate transaction costs over the period can result in negative values. Negative transaction costs are shown where an overall beneficial pricing environment has occurred at the point of trading underlying assets over the period, which has more than offset the costs of the trades. As this is not expected to be the case over the longer term, for the illustration shown below, as well as the transaction costs in the lifestyles, a nil cost has been used where a negative transaction cost has been reported.

#### 4.3. Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the

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same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

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- The transaction cost figures used in the illustration are those provided by the managers over the past year, subject to a floor of zero (ie the illustration does not assume a negative cost over the long term).
- The illustration is shown for the auto-select option for DC members (the Drawdown Lifestyle) since this is the arrangement with the most members invested in it. Shown also is the Cash Lifestyle, as the auto-select option for members' Defined Benefit Additional Voluntary Contributions ("AVCs"), as well as four funds from the Plan's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the Total Global Equity Fund;
  - the fund with the lowest before costs expected return – this is the Total Cash Fund;
  - the fund with highest annual member borne costs – this is the Total Diversified Multi Asset Fund; and
  - the fund with lowest annual member borne costs – this is the Total Fixed Interest Gilt Fund.
- Please note that these projections make no allowances for the investment risks, and hence do not provide an indication of the range of outcomes associated with, a particular investment. For example, the range of potential fund values when investing in the Total Global Equity Fund is much greater than the Total Cash Fund.

*Projected pension pot in today's money*

Years invested	Default Lifestyle		Cash Lifestyle		Total Global Equity Fund		Total Cash Fund		Total Diversified Multi Asset Fund		Total Fixed Interest Gilt Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£12,800	£12,800	£12,800	£12,800	£12,800	£12,800	£12,300	£12,300	£12,600	£12,600	£12,300	£12,300
3	£18,800	£18,700	£18,800	£18,700	£18,900	£18,900	£16,900	£16,800	£18,000	£17,900	£16,800	£16,800
5	£25,200	£25,000	£25,200	£25,000	£25,400	£25,400	£21,400	£21,300	£23,700	£23,400	£21,300	£21,300
10	£43,300	£43,000	£43,300	£43,000	£44,200	£44,000	£32,300	£32,100	£38,700	£37,800	£32,100	£32,000
15	£65,100	£64,400	£65,100	£64,400	£67,000	£66,500	£42,800	£42,400	£55,400	£53,600	£42,400	£42,300
20	£91,200	£89,800	£91,200	£89,800	£94,800	£93,900	£52,900	£52,200	£73,800	£70,600	£52,300	£52,000
25	£120,800	£118,300	£120,800	£118,300	£128,600	£127,100	£62,500	£61,600	£94,000	£89,100	£61,700	£61,400
30	£153,100	£148,800	£153,100	£148,700	£169,700	£167,300	£71,800	£70,500	£116,400	£109,200	£70,700	£70,300
35	£187,300	£180,100	£187,300	£180,100	£219,700	£216,000	£80,800	£79,100	£141,200	£131,000	£79,300	£78,800
40	£217,100	£206,300	£204,200	£195,100	£280,600	£275,100	£89,400	£87,300	£168,500	£154,600	£87,500	£86,900

**Notes**

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5% each year.

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- The starting pot size used is £10,000.
- The starting salary is assumed to be £40,000
- Contributions are assumed to be 6.0% per year.
- Values shown are estimates and are not guaranteed.
- The projected annual returns used, after the impact of fees, are as follows:
  - Auto-select option for DC members (Drawdown Lifestyle): 3.9% pa above inflation for the initial years, gradually reducing to a return of 1.0% pa above inflation at the ending point of the lifestyle;
  - Auto-select option for AVC members (Cash Lifestyle): 3.9% pa above inflation for the initial years, gradually reducing to a return of 0.9% pa below inflation at the ending point of the lifestyle;
  - Total Global Equity Fund: 3.9% pa above inflation;
  - Total Cash Fund: 0.9% pa below inflation;
  - Total Diversified Multi Asset Fund: 1.6% pa above inflation; and
  - Total Fixed Interest Gilt: 0.9% pa below inflation
- No allowance for active management has been made.

## 5. Value for members assessment

The Trustee is required to assess the extent to which the investment options and the benefits offered by the Plan represent good value for members, compared to other options available in the market. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee reviews all member-borne charges (including transaction costs where these are available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Plan. The date of the next review is November 2019. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been taken into account in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustee's assessment included a review of the performance of the Plan's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this statement have been broadly consistent with their stated investment objectives.

**3480111** The Trustee also considers the other benefits members receive from the Plan. This summary sets out the Trustee's rating and the high-level rationale behind it. The Trustee has chosen a rating ranging from poor, fair, good to very good.

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- **Charges** – Very good – the Company meets the majority of the costs of administering and running the Plan. The costs borne by members are very competitive.
- **Administration** - Good – the Trustee is confident that the administration service provided by Buck is of a good standard.
- **Governance** – Very good – the Pensions Team and Trustee Directors are very committed to the Plan and how it is run.
- **Communications** – Very good – communications are clear, tailored and informative.
- **Auto-select (default) investment arrangement** – Very good – the auto-select (default) investment strategy targets drawdown at retirement, which continues to be suitable for the majority of members, and is achieving its stated objectives
- **Investment range** – Very good – The fund range is broad and members are offered multiple lifestyles, each targeting a different retirement option. The Trustee is currently adding an ethical fund to the fund range. The fund range is broad, appropriate, not duplicated, and all funds are white-labelled with clear names.
- **Post-retirement services** – Good – the Trustee is in the final stages of its review and implementation of post-retirement options available to members using the Plan's existing provider, L&G.
- **Plan design** – the Company and Trustee's commitment to the Plan is strong and demonstrated in the design and contributions. Contributions remain generous and members are provided with a large degree of contribution flexibility.

Overall, the Trustee believes that members of the Plan are receiving very good value for money. The Trustee believes this because of the reasons listed above.

## **6. Trustee knowledge and understanding**

The Plan's Trustee Directors are required to maintain appropriate levels of knowledge and understanding.

The Trustee has measures in place to secure compliance with the legal and regulatory requirements regarding its knowledge and understanding including investment matters, pension and trust law. This, together with the advice available, enables the Trustee to exercise its functions and run the Plan properly and effectively

There are nine Trustee Directors in total. All new Trustee Directors have a training plan, and must complete the regulator's tool kit and PMI certificate within 6 months of appointment



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The Trustee Directors have an annual training day every year and the material covered in ensured to be up to date. Training needs is an item on each meeting agenda to allow the Trustee Directors to identify any knowledge gaps by being asked whether they would benefit from any specific training and are made aware of the external seminars they can attend outside of Total. Ad-hoc training is provided as and when required.

The Trustee reviews the trust deed and rules, SIP and all other documents setting out the Trustee's current policies as appropriate to ensure they have a good working knowledge of these documents

Taking into account the knowledge and experience of the Trustee Directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Plan.

\_\_\_\_\_ **Date:** \_\_\_\_\_

**Signed for and on behalf of the Trustee of the Total UK Pension Plan**