

HILL & SMITH 2016 PENSION SCHEME (the Scheme)

1.0 Governance Statement

- i. As Trustee of Hill & Smith 2016 Pension Scheme we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's:
 - Code of practice 13: Governance and administration of occupational defined contribution (DC) trust-based schemes
 - Regulatory guidance for defined contribution schemes.
- ii. Based on our assessment, the Trustee continues to work towards adopting the standards of practice set out in the DC code and DC regulatory guidance. The Trustee has agreed an action plan to ensure the Scheme achieves and maintains good practice standards and delivers better outcome for members at retirement. The action plan will be reviewed by the Trustee throughout the year. A key focus has been on ensuring that the Trustee is compliant with the General Data Protection Regulation, and remain so going forward.

2.0 Chair's Statement

i. Governance of the Default Arrangements:

The Trustee has prepared a statement of the investment principles governing decisions about investments for the purposes of the default arrangement, which is set out below. This was reviewed alongside the Scheme's overall Statement of Investment Principles (SIP) which was signed in August 2018 and is available to members on request.

The Trustee regularly engages with the Scheme's investment consultants, Trigon Pensions Limited (Trigon), who obtain a commercially attractive cost for members and are able to review these costs against the wider defined contribution market. A full DC Fund Review was carried out in February 2018 which covered the following items:

- a) Funds available including lifestyle strategies and corresponding risk ratings and fees
- b) A review of any changes made to funds over the course of the year
- c) Performance of the funds with an analysis of underperforming funds and comment on the ongoing suitability of the funds available. **Subsequent to the review, the Trustee has decided to amend the default strategy to ensure ongoing suitability for members.**
- d) Membership summary to ensure funds cover ranging member profiles and demographics. The Trustee is comfortable that, following the introduction of the UK Equity Funds as noted below, the range of funds and subsequent performance is suitable for all membership profiles and demographics.
- e) Value for members was assessed and benchmarked
- f) DC flexibilities within the Scheme and an industry review of flexi-access drawdown
- g) Recommendations to amend the current default strategy which has since been implemented.

ii. Objectives of the Default Profile

The Default Profile (managed by Legal and General – L&G) is the Multi-Asset/Over 15 Year Gilts 10 Year Lifestyle Profile which initially invests in the Multi-Asset (formerly Consensus) Index Fund.

During the final 10 years, the profile gradually switches so that 75% is invested in the Over 15 Year Gilts Index Fund and 25% in the Cash Fund. The objectives of these funds are noted below:

The Multi-Asset (formerly Consensus) Index Fund aims to meet the criteria of the ABI Mixed Investment 40-85% Shares sector. The Fund is expected to have a level of risk which is equivalent to two thirds of the volatility of a global equity portfolio, over the long-term. This Fund is passively managed.

The objective of the Over 15 Year Gilts Index Fund is to track the performance of the FTSE A Government (Over 15 Year) Index to within +/- 0.25% p.a. for two years out of three. This Fund is passively managed.

Finally, the objective of the Cash Fund is to perform in line with 7 Day LIBID, without incurring excessive risk. The Fund is actively managed, and holds sterling deposits with a range of high quality financial institutions. The Fund may also hold UK Treasury Bills or other short dated debt issued by the Government or other public sector bodies.

The aim of the lifestyle fund overall is to reduce the risk of members being inappropriately invested at retirement. In the early years, money is invested in funds with greater growth prospects. As retirement approaches, the individual's account will be gradually and automatically switched into lower-risk investment funds.

Over the course of the year, the Trustee reviewed the Funds available to members and corresponding performance, with particular focus on the Default Profile. The reviews took place during Trustee meetings rather than carrying out a written analysis. The last full DC Fund Review was carried out in February 2018 and the next one is due to be carried out in February 2021.

The Trustee is comfortable that the performance of the Default Profile remains consistent with the aims and objectives of the overall strategy. As the Trustee considers the Default Profile to remain appropriate, no further change has been made to the default arrangement over the course of the year. The Trustee will continue to consider this arrangement to be the most suitable for the membership as a whole.

iii. Expected Return of the Default Profile

The illustrations provided are calculated using the following growth rates for the Funds that make up the Default Profile. These growth rates take into account inflation.

Fund	Growth Rate
L&G PMC Cash 3	-1.3%
L&G PMC Over 15 Year Gilts Index 3	-1.3%
L&G PMC Multi-Asset 3	2.1%

iv. Realisation of investments

The assets held by the Investment Managers are readily marketable. Notice for realisation of assets can be given on any working day for any amount. All units issued by the Investment Managers and credited to the Trustee are redeemable at mid prices.

Any redemptions that are made will be disinvested using the authorised price on that given day plus any applicable charges.

v. Environmental, Social and Governance Considerations

The Trustee's duty is to act in the best financial interests of the Scheme's beneficiaries. This includes undertaking due diligence when appointing Investment Managers, by reviewing each potential Investment Manager's policies and procedures regarding Environmental, Social and Governance (ESG) issues. The Trustee believes that a considered approach to ESG issues can enhance the investment processes of the Investment Manager that they employ. They believe that responsibly managed companies are better placed to achieve a sustainable competitive advantage and provide strong long-term growth.

The Trustee expects the appointed Investment Manager, when assessing the financial attractiveness and overall risk of any investment, to have due regard for all relevant issues, including the impact of social, environmental and ethical issues. The Investment Manager has provided a copy of their policies on this subject and the Trustee is satisfied with their approach to socially responsible investment.

The Trustee has delegated to their Investment Manager the exercise of corporate governance issues, including the exercise of voting rights to investments.

vi. Core Financial Transactions

The Trustee has a duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC section of the Scheme are processed promptly and accurately. The Trustee delegated the processing of these transactions to a third party administrator, Deloitte and their Investment Managers, Legal & General. The Trustee receive quarterly administration reports from Deloitte including service levels (reporting on all services carried out by the Scheme's administrators). The Trustee is therefore able to monitor the timeliness of all core financial transactions and the service provided to members directly. An independent auditor undertakes an external audit Deloitte's administrative processes and controls (AAF 01/06) on a triennial basis which provides further assurance to the Trustee. The Trustee has an Internal Controls Policy/ Risk Register in place to mitigate potential risks relating to core financial transactions and this is reviewed by the Trustee at least annually.

The Trustee bank account is monitored on a regular basis and all transactions are checked by a senior member of the team. In terms of processing core financial transactions, no issues were identified through the year and following the annual audit process.

vii. Charges and Transaction Costs

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by DC section of the Scheme members and the extent to which those charges and costs represent good value for money for members. Members pay the fees associated with their investments; the Company pays for all adviser costs.

The Scheme's Annual Management Charge (AMC) is 0.17% on funds less than £50,000, and then 0.12% on funds over £50,000. In addition, there are Fund Management Charges (FMCs) relevant to the various Funds, as listed in the table below.

The FMC for the Default Profile will depend on the underlying funds in which the member is invested (ranging from 0.08% p.a. to 0.13% p.a.). If combined with the AMC of 0.17% and 0.12%, this is lower than the charge cap of 0.75% p.a. and the Trustee is satisfied that they have secured a good deal for members having taken advice from investment consultants who are familiar with industry standards and practices.

Transaction costs to 31 March 2019 are also listed for each Fund. Regarding transaction costs, Legal & General have noted the following:

- Due to fund switches which occurred during this reporting period a pro rata approach has been used in calculating transaction costs which assumes costs were incurred evenly over this period, in accordance with COBS 19.8.6G 03/01/2018.
- For this reporting period, Legal & General have adopted the arrival price methodology outlined by the FCA. This methodology calculates the implicit transaction costs as the difference between a transaction's executing price and the price when the order to transact was sent to a third party (the arrival price). This reporting uses the standardised industry template, as developed by the IA in conjunction with the LGPS.
- For any funds which hold an investment managed by a third party, the transaction costs provided by the third-party manager are reported as an indirect external fund transaction cost. Where transaction cost information was not made available by the third party, proxies have been used where possible otherwise transaction costs incurred by the externally managed fund have not been included.

Legal & General Funds	FMC	Explicit Transaction Costs	Implicit Transaction Costs	Total Within the Fund Transaction Costs
Global Equity (70:30) Index Fund	0.10%	0.01%	-0.03%	-0.01%
UK Equity (5% Capped) Passive Fund	0.10%	0.01%	-0.01%	0.01%
Ethical Global Equity Index Fund	0.30%	0.02%	-0.02%	0.01%
Multi-Asset Fund	0.13%	0.01%	0.00%	0.01%
Property Fund	0.30%	0.01%	-0.39%	-0.38%
AAA-AA-A Corporate Bond - All Stocks - Index Fund	0.12%	0.00%	-0.02%	-0.02%
Over 5 Year Index-Linked Gilts Index Fund	0.08%	0.00%	0.03%	0.03%
Over 15 Year Gilts Index Fund	0.08%	0.00%	-0.01%	-0.01%
Cash Fund	0.10%	0.00%	-0.03%	-0.03%

Charges are disclosed to members via the Scheme's Member Booklet. Members are entitled to one investment switch per year without charge, additional switches may incur a fee. The level of charges and transaction costs applicable to the Default Profile and other funds available to members represents good value for members.

Overall, the Trustee is satisfied that the Investment Managers continue to offer a good level of service (and in turn, good value for members) in terms of investment administration and reporting, fund choice and overall charges. The Trustee therefore remains comfortable that Legal & General should continue to provide investment management services to the Scheme.

3.0 Member Illustrations

In accordance with the Occupational Pension Schemes (Administration and Disclosure) Amendment) Regulations 2018 and relevant statutory guidance, the Trustees have provided an illustrative example using the following elements.

A member illustration has been provided by Legal and General for the Default Profile, which utilises the average member pot size of £46,000 and assumes no further contributions. The illustration, which lists the assumptions used, is provided as an addendum to this Chair's Statement.

4.0 Trustee Knowledge and Understanding (TKU)

One of the Trustee Directors has completed the Pensions Regulator's Toolkit and Trustee Directors attend regular pension training events. There is a requirement for all Trustees to complete the Trustee Toolkit within 6 months of appointment. Trustees are also required to have a working knowledge of the Deed and Rules, the SIP and various other policies.

The Trustee combines the knowledge and understanding of the Trustee Directors, together with the advice which is available to them through their consultants and advisers, to enable them to properly exercise their function as Trustee of the Scheme.

Trustee training is a standing agenda item and is therefore discussed at every Trustee meeting. If any training needs are identified, these will be arranged as deemed appropriate by the Trustee. The Trustee maintains a training log which is updated throughout the year and is reviewed on an annual basis.

Signed: _____

Date: _____

Ian Forrest (Chair of Trustees)
Hill & Smith 2016 Pension Scheme