

# MILLENNIUM & COPTHORNE PENSION PLAN

YEAR ENDED 5 APRIL 2020

## THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020

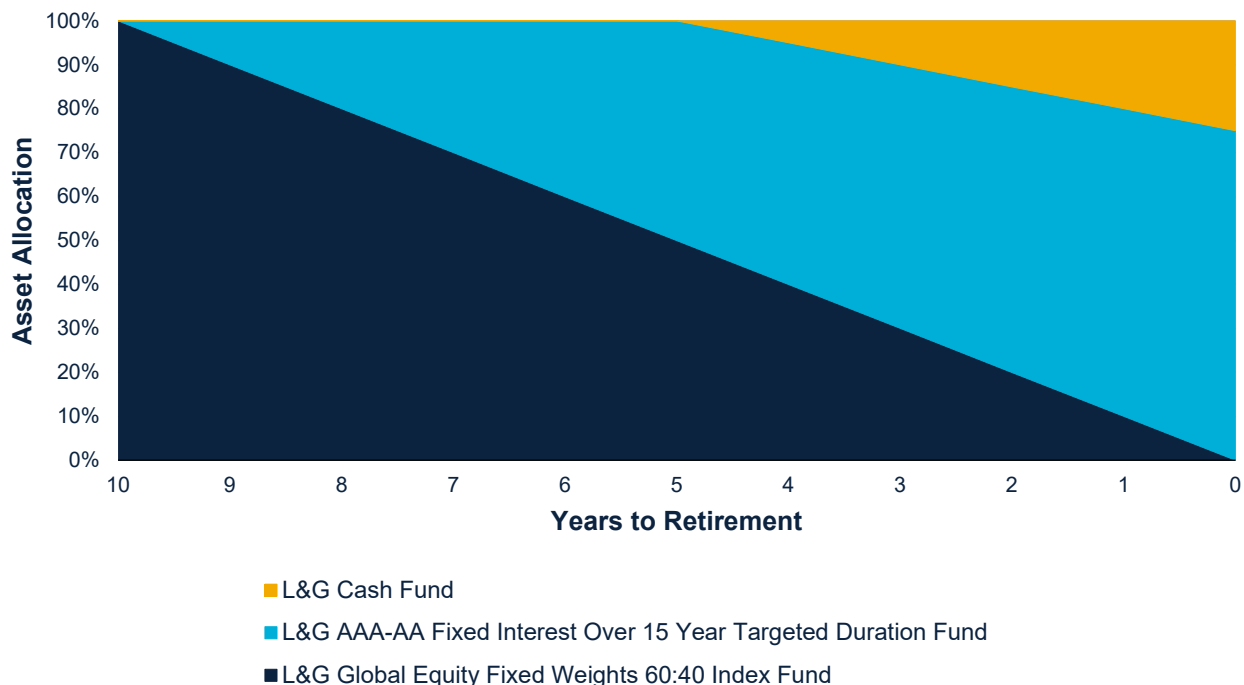
This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the Millennium & Copthorne Pension Plan ("the Plan") is meeting the governance standards that apply to occupational pension Plans that provide money purchase benefits (i.e. Defined Contribution Plans – DC).

### Default arrangement

Members of the Plan who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement chosen by the Trustee with the advice of their Investment Consultant.

The default lifestyle strategy can be separated into two distinct phases. Initially, the lifestyle option aims to generate investment growth by investing in a Growth Fund – the L&G Global Equity Fixed Weights 60:40 Index Fund. 10 years prior to a member reaching their Target Retirement Age ("TRA"), the strategy enters a de-risking transitional phase; this involves a gradual switch of assets out of the Growth Fund into corporate bonds and cash. When a member reaches their TRA their savings will be invested 75% in the L&G AAA-AA Fixed Interest Over 15 Year Targeted Duration Fund and 25% in the L&G Cash Fund.

The default arrangement targets long term growth whilst diversifying risks. The L&G Global Equity Fixed Weights 60:40 Index Fund is a passively managed fund which gains diversity through investing 60% of funds in the UK and the remaining 40% overseas. The 10 years leading up to the NRA are believed to be crucial by the Trustee, therefore the transition from growth assets to more defensive assets are undertaken on a quarterly basis from this point, so that little reliance is placed on the market conditions on any one transition date. The lifestyle strategy can be illustrated using the following chart:



By investing in this manner, the Trustee expects to deliver growth over the members' lifetime within the Plan without excessive risk taking, by increasing its focus on volatility reduction in the final 10 years. The aim of the default strategy is to target annuity purchase.

The Trustee continually monitors the performance of the Plan's investments throughout the year and receive quarterly performance reports from their advisors. The Trustee is happy with the performance of the default strategy over the period covered by this statement.

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## THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

### **Default arrangement (continued)**

On 14 June 2018 the default investment strategy was reviewed by the Trustee along with their investment consultants. In determining the investment strategy, the Trustee undertook extensive investigations and explicitly considered the demographics of the Plan as well as the trade-off between risk and expected returns when establishing the balance between different kinds of investments.

The new default strategy will replace the L&G Global Equity Fixed Weights 60:40 Index Fund allocation with the L&G Diversified Fund, a diversified growth fund ("DGF"). The reason for this is that the DGF has significantly lower risk than the LGIM Global Equity 60:40 Index Fund and invests in a diverse array of asset classes including equities, corporate bonds, government bonds, and alternatives. The L&G Diversified Fund is expected to produce an equity-like return over a full market cycle and employs a degree of tactical asset allocation, whereby the investment manager has discretion to allocate capital to different asset classes depending on the investment managers views of the relative return and risk characteristics at different points in time, in an attempt to satisfy the objectives of the fund. The Trustee also agreed to replace the L&G Cash Fund with the L&G Sterling Liquidity Fund. The L&G Sterling Liquidity Fund is also a cash fund, but is more diversified and holds longer term underlying assets which offer higher interest rates to compensate for holding these longer term deposits.

The default will continue to target annuity purchase given the existence of a Defined Benefit ("DB") underpin. The Trustee also agreed to add some further funds to the list of self-select options to give members greater choice when self-selecting. The new default strategy and additional self-select funds have now been implemented.

The current default arrangement is described in further detail in the Plan's Statement of Investment Principles (SIP) dated September 2020, a copy of which is submitted alongside this governance statement. As outlined in the SIP, the Trustee's main objective is to provide members with an investment strategy aligned to the needs of their members that will optimise the return on investments in order to build up a savings pot which will be used in retirement. The default investment strategy will be reviewed as a minimum every three years (i.e. by June 2021 or as soon as any significant developments in investment policy or member demographics take place. The SIP will now be updated to reflect the new investment strategy.

The Trustee has set up processes to publish relevant information on the default arrangement online and will notify members about this in their annual benefit statements.

### **Processing Plan transactions**

The Trustee has a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include the investment of contributions, transfer of member assets into and out of the Plan, switches between different investments within the Plan and payments to and in respect of members.

These transactions are undertaken on the Trustee's behalf by the Plan administrator, Mercer Limited, and its investment manager Legal and General Investment Management. The Trustee periodically reviews the processes and controls implemented by those organisations, and consider them to be suitably designed to achieve these objectives. The Trustee has a service level agreement (SLA) in place with the Plan administrator which covers the accuracy and timeliness of all core transactions and receive quarterly reports to monitor the performance against those service levels. The processes adopted by the Plan administrator to help meet the SLA include dynamics checklists, a central financial control team separate to the admin team, peer checking and authorisation of payments, automated reporting of late contributions, daily monitoring of bank accounts, daily checking and reconciliation of member unit holdings, a dedicated contribution processing team, and four eyes checking of investment and banking transactions. During the period covered by this statement, 76% of work was completed within the agreed service levels. The Trustee was aware of some extraordinary disruption to resourcing during the accounting year because the administration services were relocated from Mercer's Orpington administration centre to its Manchester administration centre in Q3 2019. This created a backlog of work, impacting service levels. As service levels were beginning to normalise there was further dislocation at the start of the Covid-19 crisis in March 2020. The Trustee received reassurance that no members were made financially worse off as a result of these delays.

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### THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

#### Processing Plan transactions (continued)

At its Trustee meeting in July 2020, the Trustee reviewed Mercer's processes and contingencies in the context of Covid-19 including Mercer's business continuity plan. Since the end of the reporting period, the service has largely returned to a business as usual basis and overall service levels have reverted to the normal long-term trend of over 90%.

We continue to monitor performance against the SLA on a quarterly basis and receive an annual Assurance Report on Internal Controls (AAF 01/06) from Mercer. We will also perform periodic assessments of methods and efficiency of the Plan's administrators and will challenge them in terms of efficiency.

In light of the above, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Plans (Plan Administration) Regulations 1996) have been met.

#### Charges and transaction costs – default arrangement and additional funds

The law requires the Trustee to disclose the charges and transactions costs borne by DC Plan members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report.

In this context, "charges" means (subject to some specific exemptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs. "Transaction costs" are costs incurred as a result of the buying, selling, lending or borrowing of investments.

Transaction costs have been provided by the Plan's investment manager and they are calculated using the slippage methodology. That is, the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed at (as typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

Details of the Total Expense Ratios (TERs) payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)
L&G Global Equity Fixed Weights 60:40 Index	0.16	-0.001
L&G AAA-AA Fixed Interest Over 15 Year Targeted Duration	0.15	-0.099
L&G Cash	0.125	0.003

Source: L&G

This is lower than the maximum TER allowed of 0.75% for default arrangements.

The Trustee also makes available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments and attract annual charges and transaction costs as follows:

Fund	TER (%)	Transaction Cost (%)
L&G Global Equity Fixed Weights 60:40 Index	0.16	-0.001
L&G Fixed Interest Over 15 Year Targeted Duration	0.15	-0.099
L&G Cash	0.125	0.003
L&G Managed Property	0.72	-0.441
L&G Over 5 Year Index-Linked Gilts Index	0.10	0.123
L&G Ethical UK Equity Index	0.20	0.010

Source: L&G

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## THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

**Charges and transaction costs – default arrangement and additional funds (continued)**

We are comfortable that the costs for the default arrangement and self-select funds are reasonable both in terms of the outcomes the funds are targeting and the fees in the wider market applicable to similar investment strategies. This is reviewed annually as part of the value for members assessment.

**Cumulative effect of charges**

Using the charges and transaction cost data provided by the relevant parties and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance has been considered when providing these examples and the DB AVC investment options have also been considered.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in a selection of significant funds within the Plan. The funds we are required to illustrate to represent the fund range (with the specific fund within the Plan in brackets) are:

- The fund or strategy with the most members invested (*Default Strategy*)
- The most expensive fund (*L&G Managed Property Fund*)
- The least expensive fund (*L&G Over 5 Year Index-Linked Gilts Index*)
- The fund with the highest expected return (*L&G Global Equity Fixed Weights 60:40 Index*)
- The fund with the lowest expected return (*L&G Cash Fund*)

To illustrate the impact of charges on a typical active member's pension pot, we have provided examples below. The illustrations account for all estimated member costs, including the TER, transaction costs and inflation.

"Average" member illustrations										
Years from now	Default Strategy (most popular)		L&G Global Equity Fixed Weights 60:40 Index <i>(highest expected return fund)</i>		L&G Cash Fund <i>(lowest expected return fund)</i>		L&G Managed Property Fund <i>(most expensive fund)</i>		L&G Over 5 Year Index-Linked Gilts Index <i>(cheapest fund)</i>	
	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£49,955	£49,875	£49,955	£49,875	£47,547	£47,487	£49,341	£48,986	£47,630	£47,546
3	£57,062	£56,797	£57,273	£57,007	£49,598	£49,416	£55,244	£54,094	£49,848	£49,593
5	£63,776	£63,297	£65,189	£64,696	£51,604	£51,297	£61,471	£59,404	£52,025	£51,595
7	£69,858	£69,144	£73,751	£72,986	£53,566	£53,133	£68,038	£64,925	£54,162	£53,553
10	£77,043	£75,967	£87,922	£86,651	£56,428	£55,803	£78,570	£73,618	£57,295	£56,411
12 (retirement)	£80,201	£78,897	£98,339	£96,657	£58,285	£57,529	£86,073	£79,702	£59,335	£58,264

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## THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

## Cumulative effect of charges (continued)

"Youngest" member illustrations										
	Default Strategy (most popular)		L&G Global Equity Fixed Weights 60:40 Index  (highest expected return fund)		L&G Cash Fund (lowest expected return fund)		L&G Managed Property Fund (most expensive fund)		L&G Over 5 Year Index-Linked Gilts Index (cheapest fund)	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£49,955	£49,875	£49,955	£49,875	£47,547	£47,487	£49,341	£48,986	£47,630	£47,546
3	£57,273	£57,007	£57,273	£57,007	£49,598	£49,416	£55,244	£54,094	£49,848	£49,593
5	£65,189	£64,696	£65,189	£64,696	£51,604	£51,297	£61,471	£59,404	£52,025	£51,595
10	£87,922	£86,651	£87,922	£86,651	£56,428	£55,803	£78,570	£73,618	£57,295	£56,411
15	£115,579	£113,151	£115,579	£113,151	£60,994	£60,040	£98,105	£89,282	£62,325	£60,968
20	£147,570	£143,525	£149,229	£145,134	£65,314	£64,024	£120,423	£106,542	£67,128	£65,280
25	£171,160	£165,435	£190,168	£183,736	£69,403	£67,770	£145,922	£125,561	£71,712	£69,361
28 (retirement)	£177,132	£170,619	£218,875	£210,633	£71,749	£69,909	£162,933	£137,892	£74,362	£71,703

*It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Active" and "Youngest" members' pots at retirement would be £50,492 and £54,233 respectively in today's money.*

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#### Cumulative effect of charges (continued)

<b>Assumptions</b>	
<p>The above illustrations have been produced for an "Average" member of the Plan based on the Plan's membership data. Illustrations have also been done for the "Youngest" member of the Plan using the same assumptions as the "average" illustrations but using the age of the Plan's youngest member. The "Default Strategy" illustration assumes the member's asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member's assets are invested in that fund up to the Plan retirement age. The results are presented in real terms, i.e. in today's money, to help members have a better understanding of what their pension pot could buy in today's terms, should they invest in the funds above as shown. The above calculations are based on market conditions as at 5 April 2020 and Mercer's assumptions on the future performance of the various funds illustrated. While we believe that these are reasonable they do not provide a prediction or guarantee and may change over time. These assumptions are updated annually and are provided solely for the purpose of comparing potential outcomes for members before and after fees.</p>	
Age	
<ul style="list-style-type: none"> <li>• "Average" member</li> <li>• "Youngest" member</li> </ul>	<p>53 (<i>the average age of the Plan's active membership</i>)</p> <p>37 (<i>the youngest member of the Plan</i>)</p>
Plan Retirement Age	65
Starting Pot Size	£46,505 ( <i>the median pot size of the Plan's active membership</i> )
Starting Salary	£18,365 ( <i>the median salary of the Plan's active membership</i> )
Inflation	2.5% p.a.
Rate of Salary Growth	2.5% p.a.
Employer annual contributions	6.5% p.a. ( <i>the average rate for the Plan's membership</i> )
Employee annual contributions	2.0% p.a. ( <i>the average rate for the Plan's membership</i> )
Expected future nominal returns on investment:	
<ul style="list-style-type: none"> <li>• Default Strategy <ul style="list-style-type: none"> <li>○ L&amp;G Global Equity Fixed Weights 60:40 Index</li> <li>○ L&amp;G Fixed Interest Over 15 Year Targeted Duration</li> <li>○ L&amp;G Cash Fund</li> </ul> </li> <li>• L&amp;G Global Equity Fixed Weights 60:40 Index</li> <li>• L&amp;G Over 5 Year Index-Linked Gilts Index</li> <li>• L&amp;G Managed Property</li> <li>• L&amp;G Cash Fund</li> </ul>	<p>4.0% above inflation</p> <p>0.1% above inflation</p> <p>1.1% below inflation</p> <p>4.0% above inflation</p> <p>1.0% below inflation</p> <p>2.7% above inflation</p> <p>1.1% below inflation</p>

#### Value for members

Albeit no formal standalone value for member assessment has been carried out over the reporting period, the Trustee has a good understanding of the membership demographics of the Plan and as such have a view as to what good member outcomes should look like for the Plan's members in aggregate and monitor value for members on an ongoing basis.

Whether something represents "good value" is not capable of being precisely defined, but for these purposes, the Trustee considers that charges and transaction costs may be viewed as representing "good value" for members where the combination of costs and the quality of what is provided in return for those costs is appropriate for the Plan membership as a whole, when compared to other options available in the market.

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### THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

#### Value for members (continued)

We understand that value for members does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for members we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of Plan governance, fund management and performance of the funds.

All of the funds used by the Plan are generally highly rated by our investment advisors as having good prospects of achieving their objectives, and the performance of funds are reviewed quarterly. With this in mind, the Trustee has assessed the fees disclosed above and are satisfied that they have negotiated a good deal for members and that the stated explicit charges for the Plan's funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of plans with a similar membership profile. The Trustee will be formally assessing value for members in 2021.

The Trustee has set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds publicly online and will notify members about this in their annual benefit statements.

#### Additional Voluntary Contributions (AVCs)

The Trustee also makes available a facility to members to pay in additional contributions to boost DB and DC benefits. The facility is provided via Prudential, Utmost Life and Pensions, Aviva, and Zurich Assurance. Below are the available funds together with associated fees:

Fund	TER (% p.a.)	Transaction Cost (% p.a.)
Prudential Deposit	-	-
Utmost Life Secure Cash Fund	0.50	0.00
Zurich With-Profits	0.50*	-
Aviva Pension BlackRock Over 15 Year Corporate Bond Index Tracker	0.65	0.121
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker	0.65	-0.024
Aviva Pension BlackRock UK Equity Index Tracker	0.65	0.168
Aviva Pension Cash	0.65	0.008
Aviva Pension Global Equity	0.68	0.098
Aviva Pension Pacific Basin	0.65	0.103
Aviva Pension Pre-retirement Fixed Interest	0.65	0.193
Aviva Pension UK Equity	0.65	0.086

\*Approximation for the 2019 calendar year.

Prudential and Zurich were unable to provide the transaction costs applicable to some of the funds above but the Trustee will continue to challenge them to obtain the required information.

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### THE CHAIRMAN'S STATEMENT REGARDING DEFINED CONTRIBUTION (DC) GOVERNANCE: 6 APRIL 2019 – 5 APRIL 2020 (CONTINUED)

#### **Trustee's knowledge and understanding**

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

All the Trustee Directors are required to familiarise themselves with the Plan's trust deed, rules and governing documents. The Trustee Directors take these requirements seriously and undertake training throughout the year, which is recorded on a log held by their advisers. All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit and new Trustee Directors are expected to complete this within six months of appointment.

During the year, areas of training and development have included:

- Funding of defined benefit pension schemes and the triennial actuarial valuation process (which is applicable to the Plan due to the presence of GMP underpins)
- Defined Contribution investment strategy
- Environmental Social and Governance factors in investment and incorporation in the Statement of Investment Principles
- Management of the Plan's risks and maintenance of the Risk Register
- The provisions of the Rules and legislation with respect to implementing a Flexible Apportionment Arrangement
- Current issues within the pension industry (at each meeting).

The Trustee Directors consider their training needs at every meeting and have added to their business plan an assessment of their effectiveness for 2020/21.

During the year covered by this statement, the Trustee updated the Plan's Statement of Investment Principles (SIP) to reflect their policies on financially material considerations and in doing so demonstrated a working knowledge of this document. The Trustee Directors review the Plan's Governance Report and Business Plan (including a separate DC Governance checklist) at every meeting and make updates when necessary, thereby demonstrating a working knowledge of the other documents outlining their policies.

During the year the Trustee Directors continued to apply their working knowledge of the trust deed & rules in considering and exercising their discretion for a number of death cases. In addition, in conjunction with their legal advisers, the Trustee Directors reviewed in detail the provisions of the Rules in connection with the ongoing Flexible Apportionment arrangement negotiations with the sponsor. The Trustee Directors receive professional advice from Mercer as their actuarial and investment consultant and Pinsent Masons as their appointed legal advisors, both of whom attend every regular Trustee's meeting; the Trustee Directors therefore feels they have a working knowledge of the law relating to pensions.

Taking account of all these points and actions taken individually and as a Trustee body, the Trustee Directors consider that they have sufficient knowledge and understanding of the law relating to pensions and trusts and the relevant principles relating to the funding and investment of occupational schemes and are enabled to properly exercise their functions as Trustee of the Plan.

The Chair's statement regarding DC governance was approved by the Trustee Directors and signed on their behalf by:



Mr Jonathon Grech

Chair of the Millennium & Copthorne Pension Trustee Limited, Trustee of the Millennium & Copthorne Pension Plan

Date: 5/11/2020