

Appendix A – Annual governance statement by the Chair of Trustees for the year ending 31 January 2019

Cadogan Estates Limited 1995 Pension Scheme

Annual governance statement by the Chair of Trustees for the year ending 31 January 2019

Introduction

Governance standards apply to defined contribution pension arrangements like our pension scheme. These are designed to help members achieve a good outcome from their pension savings.

As Chair of the Trustees of the Cadogan Estates Limited 1995 Pension Scheme ('the Scheme'), I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards within the Scheme. The information included in my statement is set out in law and regulation.

This Statement covers the period from 1 February 2018 to 31 January 2019.

The Trustees are committed to having high governance standards and we hold a dedicated annual meeting to monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be.

Default investment strategies

A default investment arrangement is set up by the Trustees and provided for members who do not choose an investment option for their contributions. Members can also choose to invest in this default investment arrangement.

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangements. We take professional advice from regulated investment advisers.

Setting an appropriate investment strategy

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the statement of investment principles. A copy of the latest statement of investment principles is attached to this statement.

We have chosen the Lifestyle Option for Income Drawdown as the default strategy.

The Lifestyle Option for Income Drawdown is structured to provide the potential for a level of growth over and above inflation in the long term. As members approach retirement, the Lifestyle Option for Income Drawdown retains some exposure to growth investments, recognising the longer-term investment horizon, even at retirement.

The Lifestyle Option for Income Drawdown strategy allows for 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 Lifestyle Option for Income Drawdown initially invests in the Threadneedle Global Equity Select Fund. At five years before retirement the Threadneedle Global Equity Select Fund allocation is phased out into Threadneedle Dynamic Real Return Fund, Aquila Life over 15 years UK Gilts Index Fund and Threadneedle Sterling Fund.

At a member's selected retirement age, the allocation will be 40% in the Dynamic Real Return Fund, 35% in the Aquila Life over 15 years UK Gilts Index Fund and 25% Threadneedle Sterling Fund, which allows members to take their tax-free cash allowance at retirement.

The Lifestyle Option for Income Drawdown is currently broadly meeting its objectives to reduce volatility as members approach retirement, whilst still achieving investment growth.

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 Lifestyle Option for Income Drawdown strategy, only deviating to their respective retirement targets from five years to retirement

Given the wide range of salaries of members within the Scheme, the Trustees believe that the Lifestyle Option for Income Drawdown provides the greatest flexibility as a default option.

Reviewing the default investment arrangement

The Trustees are expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years, and take into account the needs of the Scheme membership when designing it.

The Trustees' reviews the investment objectives and the performance of the default investment arrangement on an annual basis, taking advice from the Trustees' investment consultant and the Investment manager.

The Trustees consider the membership profile of the Scheme as part of the review, along with the risk profile and number of investment funds offered to members.

During the year the Trustees have not reviewed the default investment arrangement. It was last reviewed in June 2016 and the Scheme's default Lifestyle strategy was changed following this review. The Trustees regularly monitor the performance of the default arrangement and will formally review both this and the strategy at least every three years or immediately following any significant change in investment policy or the Scheme's member profile. The Pensions Regulator has written to the Trustees to say that the next review will need to take place before 27 September 2019 and the Trustees intend the review to take place before then.

As part of the review, and to fulfil our fiduciary duty to act in members' best interests, we will first confirm our understanding of the current and expected membership. We will use this information to develop an understanding of members' needs, attitudes and expectations. This will enable us to make assumptions as to what members' reasonable expectations could be.

We will then consider members' attitudes to risk and their retirement expectations to analyse different default strategies before deciding on what, if any, changes are appropriate at the time.

Self-select investment choices

In addition to the default lifestyle fund, the Trustees allow members to self-select from the following range of Threadneedle funds:

- Global Equity Select Fund
 - Dynamic Real Return Fund
 - Sterling Fund
 - Corporate Bond Fund
 - Balanced Pathway Fund
 - Property Fund
 - UK Equity High Alpha Fund
- as well as two Aquila Life funds
- Aquila Life UK Equity Index Fund
 - Aquila Life Over 15 Years UK Gilts Index Fund

Members are expected to take independent financial advice before choosing between these funds.

Charges and transaction costs paid by members

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments) in the Scheme that are paid by members rather than the employer. Apart from bank charges the employer pays all the other costs of running the Scheme (i.e. administration costs).

The Trustees have chosen two active managed funds (the Threadneedle Global Equity Select Fund and the Threadneedle Dynamic Real Return Fund) as the growth elements in both Lifestyle options. The Trustees note that whilst not charging the lowest fee, the Trustees believe that the charges are reasonable, that the funds have performed well relative to their benchmarks and that Threadneedle are providing a high level of service in relation to the fees charged.

The level of charges and transaction costs applicable to the funds during the Scheme year were confirmed by Threadneedle as being:

	Fund	Ongoing charges figure	Transaction costs ¹
Threadneedle	Global Equity Select Fund	0.50%	0.27%
	Dynamic Real Return Fund	0.50%	0.02%
	Sterling Fund	0.10%	(0.01%)
	Corporate Bond Fund	0.25%	0.04%
	Balanced Pathway Fund	0.44%	0.10%
	Property Fund	0.75%	0.25%
	UK Equity High Alpha Fund	0.60%	0.12%
Blackrock	Aquila Life UK Equity Index	0.20%	0.01%
	Aquila Life Over 15 Years UK Gilts Index Fund	0.15%	(0.05%)

Completeness of transaction cost information

Where information about the member costs and charges is not available, we have to make this clear to you, together with an explanation of what steps we are taking to obtain the missing information.

Threadneedle have confirmed the following:

- The transaction cost information is for the year from 1 January 2018 to 31 December 2018, rather than the Scheme year of 1 February 2018 to 31 January 2019, which they were unable to provide; and
- Transaction cost data was not available for 8.09% of the Dynamic Real Return Fund, 1.58% of the Corporate Bond Fund and 0.95% of the UK Equity High Alpha Fund; and
- Finally, we were not provided with transaction costs prior to 1 January 2018.

We are reviewing our processes for monitoring transaction costs provided by Threadneedle and will be discussing with the managers their ability to provide complete and historic information for these funds in future. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.

¹ A charge in (brackets) is effectively a negative cost i.e. it boosts net return, rather than detracting from it.

Examples of the impact of costs and charges

We are required to provide illustrative examples of the cumulative effect over time of the application of the charges and costs on members' savings. We have prepared the following examples, having taken account of the statutory guidance issued by the Department of Work and Pensions² in preparing this section of our statement.

Each table in this section shows the projected pension savings (or 'retirement pot') in today's money for a different representative member, using median statistics as at 31 January 2019 and using the Statutory Money Purchase Illustration ('SMPI') assumptions as at 1 February 2019 that will feature in the Scheme's 2019 annual benefit statements (with the exception of transaction costs being taken into account in the enclosed tables, when these are ignored within SMPI statements).

'Typical' active Scheme member:

Fund choice												
Lifestyle option for income drawdown		Balanced Pathway Fund		Cash Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund		
The default drawdown lifestyle option with a five year lifestyling		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		
Age	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£	£	£	£	£	£	£
43	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
48	64,244	62,363	62,411	61,121	54,145	53,954	62,895	60,508	65,492	63,701	64,244	62,363
53	97,389	92,258	92,387	88,954	71,667	71,224	93,694	87,350	100,882	95,893	97,389	92,258
58	134,957	124,918	125,168	118,613	87,703	86,960	127,698	115,595	141,957	132,000	134,957	124,918
63	174,817	158,500	161,015	150,215	102,380	101,297	165,241	145,317	189,631	172,497	177,538	160,599
65	183,238	165,955	176,276	163,429	107,897	106,668	181,331	157,637	210,780	190,044	196,121	175,780

'Typical' youngest active Scheme member:

Fund choice												
Lifestyle option for income drawdown		Balanced Pathway Fund		Cash Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund		
The default drawdown lifestyle option with a five year lifestyling		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		
Age	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£	£	£	£	£	£	£
20	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
25	13,545	13,247	13,255	13,050	11,927	11,896	13,332	12,952	13,742	13,459	13,545	13,247
30	26,064	24,989	25,016	24,291	20,554	20,456	25,291	23,951	26,790	25,752	26,064	24,989
35	40,253	37,817	37,878	36,270	28,450	28,256	38,495	35,524	41,934	39,539	40,253	37,817
40	56,336	51,831	51,943	49,033	35,677	35,363	53,073	47,703	59,511	55,003	56,336	51,831
45	74,564	67,143	67,324	62,634	42,291	41,839	69,168	60,518	79,911	72,347	74,564	67,143
50	95,225	83,870	84,144	77,126	48,344	47,739	86,939	74,003	103,589	91,801	95,225	83,870
55	118,642	102,145	102,537	92,568	53,885	53,115	106,559	88,194	131,071	113,621	118,642	102,145
60	145,184	122,111	122,652	109,022	58,955	58,013	128,222	103,126	162,967	138,094	145,184	122,111
65	163,557	135,739	144,648	126,555	63,596	62,476	152,139	118,839	199,988	165,544	175,267	143,924

² <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

Trustees' annual report and financial statements
Year ended 31 January 2019

'Typical' deferred Scheme member:

		Fund choice										
Lifestyle option for income drawdown		Balanced Pathway Fund		Cash Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund		
The default drawdown lifestyle option with a five year lifestyling		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		
Age	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£	£	£	£	£	£	£
43	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000
48	26,069	25,128	25,152	24,508	21,050	20,956	25,394	24,202	26,695	25,797	26,069	25,128
53	29,547	27,452	27,505	26,114	19,266	19,094	28,037	25,468	30,983	28,934	29,547	27,452
58	33,490	29,992	30,079	27,826	17,632	17,398	30,955	26,799	35,961	32,453	33,490	29,992
63	37,364	32,328	32,893	29,651	16,138	15,852	34,177	28,200	41,738	36,400	37,364	32,328
65	37,199	31,979	34,091	30,413	15,576	15,272	35,558	28,781	44,301	38,110	39,908	33,947

'Typical' youngest deferred Scheme member:

		Fund choice										
Lifestyle option for income drawdown		Balanced Pathway Fund		Cash Fund		Property Fund		UK Equity High Alpha Fund		Global Select Fund		
The default drawdown lifestyle option with a five year lifestyling		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		Only one fund is used throughout		
Age	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted	Before charges	After all charges & costs deducted
	£	£	£	£	£	£	£	£	£	£	£	£
24	10	100	100	100	100	100	100	100	100	100	100	100
29	113	109	109	107	92	91	110	105	116	112	113	109
34	128	119	120	114	84	83	122	111	135	126	128	119
39	146	130	131	121	77	76	135	117	156	141	146	130
44	165	142	143	129	70	69	149	123	181	158	165	142
49	187	156	156	137	64	63	164	129	211	178	187	156
54	212	170	171	146	59	57	181	136	244	199	212	170
59	240	186	187	156	54	52	200	143	284	223	240	186
64	262	197	205	166	49	47	221	150	329	250	272	203
65	260	195	208	168	48	47	225	152	339	256	279	207

Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. For active members only, future contributions are assumed to be paid from assumed age to 65 and increase in line with assumed earnings inflation of 2.5% each year.
4. Total contribution rates and pensionable salaries for the active member illustrations in the Scheme are assumed to be 12% and £39,000 respectively for the 'typical' active member and 12% and £17,000 respectively for the 'typical youngest' active member.
5. The starting pot size are assumed to be £35,000 for the 'typical' active member, £23,000 for the 'typical' deferred member, £2,500 for the 'typical youngest' active member and £100 for the 'typical youngest' deferred member.
6. Starting ages within the Scheme are assumed to be 43 for the 'typical' active member, 43 for the 'typical' deferred member, 20 for the 'typical youngest' active member and 24 for the 'typical youngest' deferred member.
7. The projected growth rate for each fund (before total expense ratio and transaction costs over the year to 31 January 2019 are deducted) are as follows:

Default fund (growth phase):	2.54% above inflation
Threadneedle Global Equity Select Fund	2.54% above inflation
Threadneedle UK Equity High Alpha Fund	3.02% above inflation
Threadneedle Balanced Pathway Fund	1.80% above inflation
Threadneedle Property Fund	2.00% above inflation
Threadneedle Sterling Fund	-1.76% below inflation

Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring assets relating to members into and out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to, or on behalf of, members.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrator, Buck.

There is a service level agreement in place between the Trustees and Buck which provides for Buck to ensure accurate and timely processing of the core financial transactions for which it is responsible. Buck is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Scheme's trust deed and rules. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

This administration service includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

In order to monitor this service, the Trustees receive regular reports confirming the payment and allocation of contributions, as well as information on events such as cash management and pension payroll. The Trustees also monitor transactions made via the Trustees' bank account on a regular basis. As administrator, Buck prepares a regular report (AAF 01/06) setting out its internal controls in respect of pensions administration which is independently audited. The Scheme Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

Although Buck has targets in place within the Service Level Agreements around such items as the monitoring of bank accounts, investment and banking transactions, investment switches, etc, improvements could be made to the statistics provided on the actual targets and timescales and the level of service that is provided in comparison to these targets and timescales. However, as administrator, Buck provides the Trustees with a quarterly administration report that sets out the general Service Level Agreements for the efficient processing of scheme events and the Trustees discuss this at each Trustee meeting, noting any specific issues that have arisen with the administration services provided (covering core financial transactions and member processing).

There were no material administration service issues discussed in the last Scheme year which need to be reported here by the Trustees and as a result I am confident that all core financial transactions have been processed within a reasonable time.

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

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Scheme's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Scheme effectively.

The Trustees meet all the knowledge and understanding requirements and understand the Scheme and its documents. The Trustees are aware that they must have a working knowledge of the trust deed and rules of the Scheme, the statement of investment principles and the documents setting out the Trustee's current policies.

The Trustees are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes.

The Trustees do this by regularly reviewing the relevant Scheme documents and during the Scheme year have sought advice from the Scheme's legal advisers on the powers of the Trustees under the trust deed and rules (for instance, around the processes involved in appointing Member Nominated Trustees).

The Trustees have assessed the Scheme against the standards set out in the new code of practice for trustees of pension schemes providing money purchase benefits (the DC code) and related guides and have established an action plan to ensure we can demonstrate that we are offering a quality scheme.

The Trustees take their training and development responsibilities seriously and the Trustees keep a record of the training completed by each Trustee. The training log is reviewed at each Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. Progress has been made in completing the essential modules within the Pensions Regulator's on-line trustee toolkit. New Trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board. Trustees must review the toolkit on an on-going basis to ensure their knowledge remains up to date.

The Trustees also receive "on-the-job" training. This means that as new topics arise, their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests as well as training during the meeting, so that the Trustees may engage on such topics in an informed manner. Relevant advisers attend Trustee meetings and are in frequent contact with the Trustees to provide information on topics under discussion, either specific to the Scheme or in respect of pension or trust law.

During the Scheme year, training and development on the following topics took place:

- The Pensions Regulator's DC Code of Practice 13

As a result of the training activities which have been completed by the Trustees, individually and collectively, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees to the Scheme.

Assessing value for members and wider value for money

As part of our assessment of the charges and transaction costs, the Trustee is required to consider the extent to which costs and charges within the Scheme represent good value for members when this is compared to other options available in the market.

This section sets out the approach that the Trustees have taken, the conclusions we have reached and an explanation of how and why we have reached those conclusions.

Categorising costs/charges and how these impact on our assessment

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest charges, and the overall quality of the service received has been taken into account in the assessment of value to members.

In line with our legal duties and guidance issued by the Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Principal Employer.

It is the current policy of the Trustees and the Principal Employer that the only costs that are paid by members are fund management charges and transaction costs for the investment funds used within the Scheme (as well as bank charges that are also paid from the Scheme and not explicitly financed by the Principal Employer).

For all other costs and charges, the Principal Employer bears the full cost. This covers such areas as:

- wider investment support and governance (e.g. the costs of regularly reviewing and updating funds available to members, etc);
- administration of the Scheme (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, producing annual financial statements, etc);
- member communications (e.g. the costs of producing and issuing member booklets, annual benefit statements, etc); and
- the management and governance of the Scheme (e.g. the expenses of the Trustees, the costs of legal/actuarial advisers and annual audit, etc).

As a result, the Trustees have undertaken two analyses:

1. First, we have assessed the 'value for members' arising from the benefits that members receive from the charges and transaction costs that they directly pay – this assessment is required by legislation but, for the Scheme, is mainly limited to the performance and volatility of investment returns from Scheme funds versus the charges that members pay for holding those funds and from the bank charges;
2. We have also assessed the overall 'value for money' offered to members of the Scheme, with the aim of capturing not only the value from member-borne costs but also the broader elements of value that members receive from the employer-financed costs, as well as wider factors such as the generosity of the employer contribution rates above the automatic enrolment minimum contribution levels.

Overall conclusions

Based on our assessment, we have concluded that the Scheme offered satisfactory 'value for members' over the year to 31 January 2019, when measured against the definition required by legislation.

When we take into account wider elements of value that members receive as a result of costs paid by the Principal Employer, we have concluded that the Scheme also offered satisfactory 'value for money' overall over the Scheme year.

(Our definition of 'satisfactory' value is set out below.)

There are areas where overall 'value for money' could be improved for members and the Trustees have already taken action to improve some areas and plan to perform further investigations into other areas over the year to 31 January 2020.

Our approach

Assisted by our advisers and in line with the Pensions Regulator's guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay (including transaction costs where available) and the costs that the Principal Employer pays;
2. We have assessed the scope and quality of the services that members receive, in line with criteria agreed by the Trustees in advance;
3. We have compared the value that members receive from the services against the cost of those services, on both the 'value for member' basis required by legislation and the wider 'value for money' basis; and
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that not only are we comparing the level of charges in each fund with the levels of return they have delivered to members, we are also comparing the overall *costs* of membership of the Scheme against the *benefits* of membership (i.e. the services provided by the Scheme). In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of their advisers.

Preparation for the assessment

The Trustees received support from advisers around how to undertake a value for member assessment and also considered the statutory guidance.

A number of key decisions were made as part of these preparations:

- The Trustees will use a scoring system for each assessment;
- Individual areas of service were given scores by considering the scope and quality of the services under those areas;
- Two overall weighted scores ranging from 0% to 100% were produced, one for 'value for member' and one for 'value for money';
- The Trustees agreed that any score under 50% represented poor value, between 50% to 75% represented satisfactory value and scores of 75% or over represented good value; and
- Scores will be compared from year to year from now on, with a view to measuring and monitoring changes to the 'value for members' and wider 'value for money'.

Process followed for the assessment, including key factors considered

The Trustees, assisted by their advisers, then considered the services provided by the Scheme in the main areas where costs are borne (whether by members or by the employer), such as investment, communications, scheme management and governance, and administration.

For each of the 'value for member' and wider 'value for money assessment', different scores and weighting factors were applied to reflect the different services being assessed.

For the 'value for member' analysis, only the historic return and volatility of the default fund versus benchmark, and the charges and transaction costs of that fund versus benchmark have been assessed. 67% of the 'value for member' score has been allocated to the historic return and volatility of the default fund versus benchmark and 33% of the score allocated to the charges and transaction costs of that fund versus benchmark.

For the wider 'value for money' analysis, the assessment covers a larger set of services paid for by both members and the Principal Employer, including the following

Area	Examples
Investments / charges	The quality / governance of the default fund and alternative choices, the historic return and volatility of the default fund, charges and transaction costs versus benchmark, etc
Communications / member support	Whether bespoke/tailored or event-driven communications are used, at-retirement communications/guides/modellers/support, access to pension freedoms, etc
Scheme management and governance	Understanding of membership characteristics/attitudes/needs, compliance with the Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
Administration / online services	Online fund values/switching, use of service level agreements, core administration team/helpline, etc
Employer contribution to member funds	The generosity of the employer contributions over and above the automatic enrolment minimum.

While all of the factors above contribute to whether the Scheme is well run, the Trustees believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Scheme and the level of investment performance net of fees.

As a result, 30% of the overall 'value for money' score is allocated to the generosity of the employer contributions, 30% was allocated to the quality and governance of the investment options and 20% to the competitiveness of fees and transaction costs.

The remaining 20% was allocated to the other categories, which cover whether the communications support good savings behaviours, whether the governance and oversight identifies and prioritises member interests and whether efficient processes are in place to carry out member instructions or transactions to a suitable quality and timescale.

Explanation of the results of the assessment

Our conclusion that the Scheme offers satisfactory value for members over the year to 31 January 2019 is based on aspects such as:

- The default investment strategy has broadly outperformed its benchmark over the 3 years to 31 January 2019;
- However, performance of the growth fund within the default investment strategy over the 12 months to 31 January 2019 has been low and has underperformed benchmark;
- The default investment strategy also has an annual charge of 0.5% throughout its growth phase, compared to the 0.4% average charge for default funds within trust-based DC schemes that featured in the 2017 PLSA annual survey;
- The transaction costs applying during the growth phase of the default fund are high, at 0.27%; and
- Finally, the bank charges that are met from the Scheme, although small, do not appear to present good value to members.

Our conclusion that the Scheme offers satisfactory value for money over the year to 31 January 2019, taking into account employer-borne costs, is based on aspects such as:

- The contribution structure is generous compared to the automatic enrolment minimum, with most members not required to pay employee contributions and receiving employer contributions that meet the total contribution rates required for automatic enrolment qualifying scheme status and which are above what is typical for occupational DC schemes;
- The default investment strategy was designed with reference to the membership profile of the Scheme and has its performance reviewed on a six-monthly basis;
- Members are able to receive a wide range of support from the administrators (e.g. a dedicated helpline manned by a ring-fenced administration team), with no member complaints reported over the year to 31 January 2019. The Trustees are also supported by a dedicated account manager, which compares well to other options in the market for a scheme this size;
- Members receive communications that aid member decision-making (including section-specific contribution structure booklets, a bespoke annual benefit statement, etc);
- The Scheme has a set of Trustees who meet around twice a year, discussing DC-specific matters at each Trustee meeting, with a Trustee training plan in place and ad-hoc training received before major decisions; and
- The Trustees also have clear contracts with external advisers, whose fees are reviewed regularly and benchmarked against the market.

Follow-on actions and investigations

Over the year to 31 January 2020, the Trustees plan the following actions:

- Introduction of a Member Portal, which will improve the ability of members to interact with the Scheme online (e.g. using the Portal to obtain up-to-date fund values, switch investments between funds, access modelling tools, etc);
- Liaison with the fund managers to ensure that complete and accurate disclosure of transaction costs is provided, in line with FCA rules. The Trustees will also review the default fund transaction costs versus similar funds in the market;
- A review of the at-retirement tools/guidance/advice provided to members, as well as the options available within or outside the Scheme;
- Investigations to improve the Trustees' understanding of the characteristics / attitudes of members and how these feed into Trustee decision-making;
- A review of the default investment strategy and self-select fund range;
- Consideration of whether to tailor communication messages/approaches to different segments of the membership, utilise alternative media, etc; and
- Liaison with Buck to receive further regular reporting on service levels related to the processing of financial transactions.

The Trustees will also discuss this analysis with the Principal Employer to obtain their views and to request that the bank charges are met by the Principal Employer in future.

Trustees' annual report and financial statements
Year ended 31 January 2019

Feedback

If you have any questions about anything that is set out in this Statement, or any suggestions about what can be improved, please do let us know.

Signed for and on behalf of the Trustees of the Cadogan Estates Limited 1995 Pension Scheme by Sanjay Patel, Chair of the Trustees.



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Date 18 AUGUST 2019