

## **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 <sup>1</sup>
<b>Threadneedle</b>	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%
<b>Blackrock</b>	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.

<sup>1</sup> 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 Pensions<sup>2</sup> 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												
Age	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 lifestyle		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	
	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												
Age	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 lifestyle		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	
	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

<sup>2</sup> <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 lifestyle		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	37,958	32,767
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 lifestyleing		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
<b>Investments / charges</b>	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
<b>Communications / member support</b>	Whether bespoke/tailored or event-driven communications are used, at-retirement communications/guides/modellers/support, access to pension freedoms, etc
<b>Scheme management and governance</b>	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
<b>Administration / online services</b>	Online fund values/switching, use of service level agreements, core administration team/helpline, etc
<b>Employer contribution to member funds</b>	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.

## **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 .....



# The Cadogan Estates Limited 1995 Pension and Assurance Scheme

## Statement of Investment Principles

November 2017

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# 1 Introduction

## Scheme background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for The Cadogan Estates Limited 1995 Pension and Assurance Scheme (the "Scheme").
- The Scheme:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries,
  - provides benefits calculated on a defined contribution (DC) basis,
  - is open to new members.
- Conduent HR Services are investment consultants to the Trustees.
- Contributions are directed to an occupational money purchase pension policy with Threadneedle.

## Regulatory requirements and considerations

- This statement covers the requirements of, and the Scheme's compliance with, the provisions of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005 as well as additional non-statutory information recommended to be included following the Myners review of "Institutional Investing in the UK", the results of which were first published in 2001 (referred to as the "Myners Principles").
- The Myners Principles require Trustee Boards to act in a transparent and responsible manner. The information set out in this document helps ensure that the Trustees are complying with this requirement.
- The Trustees have taken into account the requirements and recommendations within the Pension Regulator's DC code and regulatory guidance. Information on the Trustees' approach to investment matters within the Scheme, and in particular in setting the default arrangement, are included within this document.

# 2 Statement of Investment Principles

## Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 (as amended) and the Occupational Pension Schemes (Investment) Regulations 2005.
- In accordance with section 35 of the Pensions Act 1995, the Trustees have reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the Sponsoring Employer.
- The investment manager will prepare detailed quarterly reports on its activities and the Trustees will meet with them periodically.
- The Trustees will review this Statement, in consultation with the investment consultant and the Sponsoring Employer, at least once every three years, or more frequently if there are any significant changes in the Scheme's circumstances. However, ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

## Key investment principles

### Kind of investments to be held

- The Trustees have full regard to their investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, property and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes. The Trustees have considered the attributes of the various asset classes, these attributes being:
  - security (or quality) of the investment,
  - yield (expected long-term return),
  - spread (or volatility) of returns,
  - term (or duration) of the investment,
  - exchange rate risk,
  - marketability/liquidity (i.e., the tradability on regulated markets),
  - taxation.
- The Trustees consider all of the stated classes of investment to be suitable to the circumstances of the Scheme.

## Investment Decisions

- All investment decisions are taken by the Trustee Board as a whole. The Trustees believe that collective responsibility is the appropriate structure, given the size of the board. The Trustees will examine regularly whether additional investment training is desirable for any individual Trustee.
- Investment decisions relating to the Scheme are under the Trustees' control without constraint by the Sponsoring Employer. The Trustees are obliged to consult with the Sponsoring Employer when changing this Statement.
- Day-to-day investment decisions are delegated to properly qualified and authorised investment managers of pension scheme portfolios. An insurance contract has been exchanged with the platform provider and is reviewed from time-to-time. In addition, the underlying managers accessed via the platform provider are reviewed regularly to ensure that the manner in which they make investments on the Trustees' behalf is suitable for the Scheme, and appropriately diversified.

## Investment Objectives and Suitability of Investments

- The Trustees believe that fund selection is an important decision for all members since it is likely to have an important influence on the risk taken and return achieved on members' pension savings. The Trustees regularly communicate with members to enable them to understand the importance of this area and to provide them with education to help them to make informed choices about their selection of funds.
- However, the Trustees also recognise that in practice many members do not actively make an investment choice and are instead invested in the default option. The Trustees therefore recognise the importance of designing an appropriate default option for the Scheme's membership.
- Whilst the Trustees believe the chosen default option is a reasonable choice for a lot of the membership, ultimately each member should take into account their own personal circumstances when determining whether the default option or an alternative strategy would best meet their needs.
- The default option has been designed having taken due regard to the membership profile of the Scheme, including consideration of:
  - the size of members' retirement savings within the Scheme,
  - members' current level of income and hence their likely expectations for income levels post retirement,
  - the fact that members may have other retirement savings invested outside of the Scheme, and
  - the ways members may choose to use their savings to fund their retirement.

These factors have also been considered when setting the range of alternative investment options from which members can choose.

- The objective of the default option is to provide a balanced investment strategy for members who do not make an active investment choice. The strategy aims to maximise the level of return (net of fees) that a member could expect to receive from the Scheme over the course of their working lifetime, while reducing the risk of them having income provision in retirement significantly below what may reasonably be expected.



- The objective of the alternative investment options available is to allow members to tailor their investments based on their individual investment requirements, while avoiding complexity. The range should assist members in achieving the following:
  - maximising the value of retirement benefits, to ensure a reasonable standard of living in retirement,
  - protecting the value of benefits in the years approaching retirement against equity market falls and (should they decide to purchase an annuity) fluctuations in annuity costs, and
  - tailoring a member's investments to meet his or her own needs, and to how the member intends to make use of their benefits at and through retirement.
- The Trustees recognise that members using the default option are likely to be less financially aware than those using self-select options and have taken this into account in the strategy design.
- The Trustees' investment consultant provides advice regarding the suitability of both the default option and the self-select options available.
- Details of the default and self-select options chosen (including the investment objectives of the individual funds), are shown in the appendices.
- Members are advised to take independent financial advice before choosing between these funds.
- The Trustees are satisfied that the funds offered to members and the appointed investment manager are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

## Risk

- The Trustees have considered risk from a number of perspectives. These are the risk that:
  - the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income,
  - investment market movements in the period prior to retirement lead to a substantial reduction in the anticipated level of pension or other retirement income,
  - investment market movements in the period just prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit,
  - the default option is not suitable for members who invest in it, and
  - fees and transaction costs reduce the return achieved by members by an inappropriate extent.
- The investment strategy for the default option has been chosen with the aim of reducing these risks. The self-select funds available have been chosen to provide members with the flexibility to address these risks for themselves.
- To mitigate some of these risks, the Trustees have made available a lifestyle option, which transitions members' investments from higher risk orientated

investments to lower risk bond and cash investments as members approach retirement.

- To help address these risks, the Trustees also review the lifestyle option used and the fund range offered at least every three years, taking into account changes to the membership profile, developments within DC markets (including both product development and trends in member behaviour) and changes to legislation.

### Expected Return on investments

- The default option is expected to provide an appropriate return on members' investments, based on the Trustees' understanding of the Scheme's membership and having taken into account the risk considerations set out above. The Trustees have also considered the return expectations of each of the alternative fund options offered.

### Balance between different types of investments

- The investment manager will maintain a diversified portfolio of stocks or bonds within each of the funds offered under the Scheme (both within the default and self-select options).

In addition, the design of the default option provides further diversification through the use of multiple funds throughout a member's working lifetime.

### Investment Manager Monitoring

- The Trustees will assess the performance, processes and cost effectiveness of the investment manager by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.
- All investment decisions, and the overall performance of the investment manager, are monitored by the Trustees with the assistance of the investment consultant.
- The investment manager will provide the Trustees with quarterly statements of the assets held along with a quarterly report on the results of the past investment policy and the intended future policy, and any changes to the investment processes applied to the portfolios. The investment manager will also report verbally on request to the Trustees.
- The investment manager will inform the Trustees of any changes in the internal performance objective and guidelines of any pooled funds used by the Scheme as and when they occur.
- The Trustees will assess the quality of the performance and processes of the investment manager by means of a review at least once every three years in consultation with the investment consultant.
- Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment manager.

### Performance Monitoring

- Each of the funds in which the Scheme invests has a stated performance objective against which the performance is measured.
- The Trustees will review the performance of the investment manager from time to time, based on the results of their performance and investment process.

- The investment manager is expected to provide written reports on a quarterly basis.
- The Trustees receive an independent investment performance monitoring report from their investment consultant on a six-monthly basis.

### Realisation of investments

- In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustees require the investment manager to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate. This applies both to the default option and to the alternative fund options offered.

### Social, Environmental and Ethical Issues

- The Trustees' objective is to ensure that the investment manager has the financial interests of the Scheme members as their first priority when choosing investments. They may take social, environmental or ethical considerations into account only when these factors do not contradict the primary objective or where these considerations are specified within the mandate of the funds used.
- The Trustees have reviewed the investment manager's policies in respect of Socially Responsible Investment and are satisfied that it is consistent with the above approach.
- This approach applies to both the default option and to the alternative fund options offered.

### Voting Rights attaching to Investments

- The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment manager and to encourage the manager to exercise those rights. The investment manager is expected to provide regular reports for the Trustees detailing their voting activity. The Trustees will take corporate governance policies into account when appointing and reviewing such investment managers.

# 3 Appointments & Responsibilities

This section sets out the key appointments and responsibilities with respect to the investment aspects of the Scheme.

## Trustees

The Trustees' primary responsibilities include:

- preparation of this Statement, reviewing its contents and modifying it if deemed appropriate, in consultation with the Sponsoring Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment manager,
- appointing investment consultants, a platform provider and investment manager as necessary for the good stewardship of the Scheme's assets,
- reviewing the investment strategy on a regular basis, taking advice from the investment consultant,
- assessing the processes (and therefore the performance) of the investment manager by means of regular, but not less than annual, reviews of information obtained (including investment performance),
- monitoring compliance of the investment arrangements with this Statement on a regular basis, and
- monitoring risk and the way in which the investment manager has cast votes on behalf of the Trustees in respect of the Scheme's equity holdings.

## Investment Consultant

The main responsibilities of the investment consultant include:

- assisting the Trustees in the preparation and periodic review of this Statement in consultation with the Sponsoring Employer,
- undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustees,
- advising the Trustees on the selection and review of the investment manager and platform provider,
- providing training or education on any investment related matter as and when the Trustees see fit.

## Investment Managers

The investment manager's main responsibilities include:

- investing assets in a manner that is consistent with the objectives set,
- ensuring that investment of the Scheme's assets is compliant with prevailing legislation and the constraints detailed in this Statement,
- providing the Trustees with quarterly reports including any changes to their investment process and a review of the investment performance,
- attending meetings with the Trustees as and when required,
- informing the Trustees (or platform provider) of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur, and
- exercising voting rights on shareholdings in accordance with their general policy.

## Custodian

The custodians used are responsible for the safe-keeping of the Scheme's assets.

- The custodianship arrangements are those operated by the investment manager for all clients investing in their pooled funds.

## Administrators

- The administrator's primary responsibilities are the day to day administration of the Scheme and the submission of specified statutory documentation, as delegated by the Trustees.
- The Scheme's administrator is Conduent HR Services.



Signed on behalf of the Trustees of the Scheme:

R. J. GRANT [Signature]  
Name Signature

8 Nov 2017  
Date

I. M. LOUTIT [Signature]  
Name Signature

8. 11. 2017  
Date

# Appendix 1– Fund Range and Objectives

## Fund options

The funds available to members are included in the below table.

Manager	Fund	Benchmark Index	Objective % p.a.
Threadneedle	UK Equity High Alpha Fund	FTSE All Share Index	To outperform the benchmark by 3.5% p.a. over rolling three year periods
	Global Equity	MSCI AC World Index	To outperform the benchmark by 3.0% p.a. over rolling three year periods
	Corporate Bond	iBoxx GBP Non-Gilt Index	To outperform the benchmark by 0.75% p.a. over rolling three year periods
	Property	AREF/IPD UK Quarterly Property Fund Index	To outperform the benchmark by 1.0 to 1.5% p.a. over rolling three year
	Cash Fund	LIBID 7 days	To provide investors with an investment return similar to that of cash deposits.
	Dynamic Real Return Fund	UK CPI	To outperform benchmark over the medium to long term and generate positive return over a three year period.
	Balanced Pathway	Composite equity, fixed income and property	To outperform the benchmark over rolling three year periods
BlackRock	BlackRock Aquila Life UK Equity Index	FTSE All Share Index	To track the benchmark index
	Aquila Life Over 15 Year Gilts	FTSE UK Gilts Government Over 15 Years	To track the benchmark index

The Scheme normal retirement age is set to age 65, but the Trustees allow members to select their own retirement age. The Trustees also allow members to opt-out of the lifestyle investment strategies and select from a range of funds that suit their individual circumstances.

To aid their decisions, information about the funds offered will be made available to members. Members are advised to take financial advice before choosing between these funds.

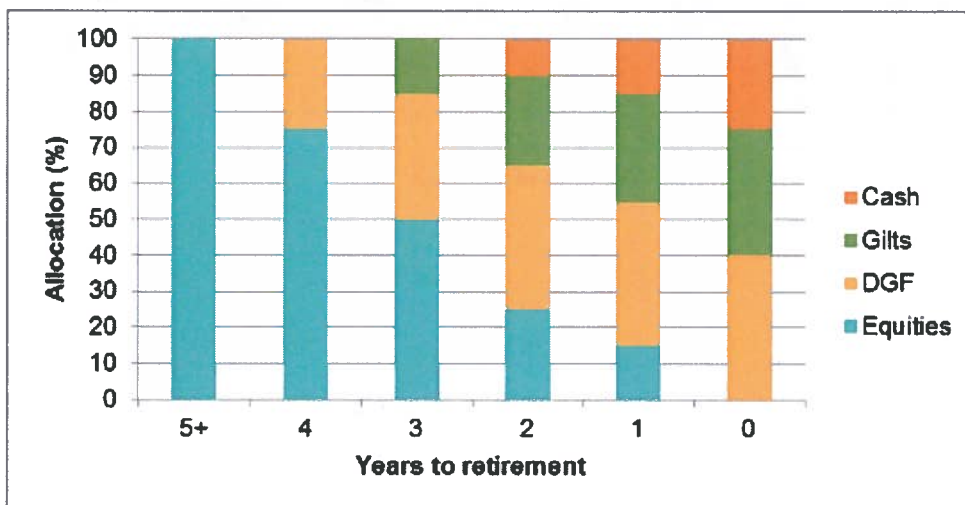
## Lifestyle strategy

The lifestyle strategy entails members' assets being switched between funds as they approach their target retirement date.

There are three Lifestyle Plans used by the Scheme as described below. These progressively phase members' assets out of the Threadneedle Global Equity Fund into funds which may be more suitable for members as they approach retirement, depending on their stated goals.

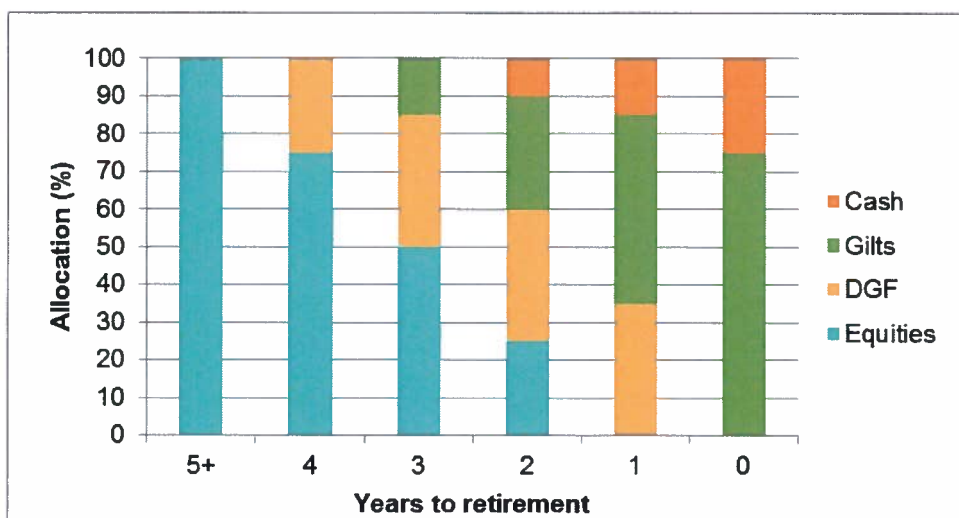
### Drawdown Lifestyle Plan (Default option)

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



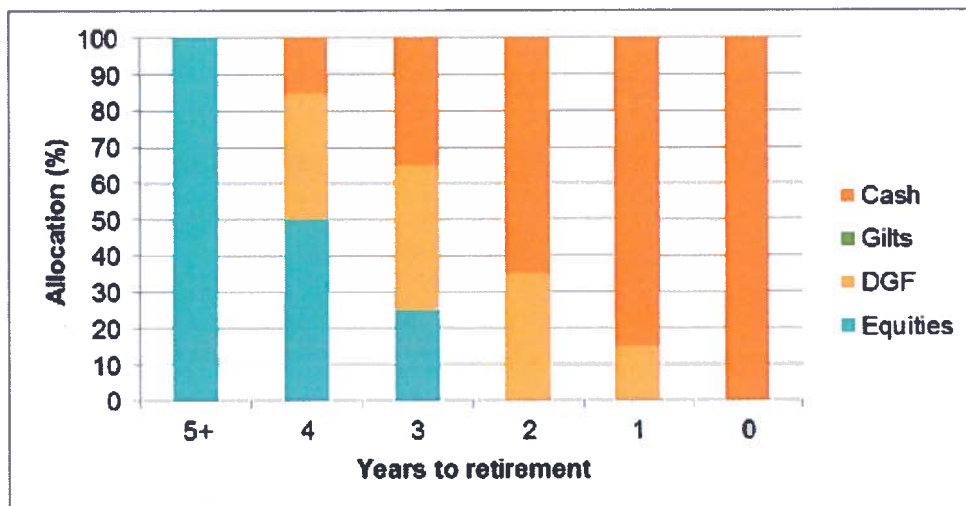
### Annuity Lifestyle Plan

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



## Cash Lifestyle Plan

The chart below demonstrates how the transition under the Lifestyle Plan will take place in the years leading up to members' chosen retirement age:



# Appendix 2 – Fees

## Investment manager fees

Manager	Fund	Investment Style	Management Fee % p.a.
Threadneedle	UK Equity High Alpha Fund	Active	0.60
	Dynamic Real Return	Active	0.50
	Global Equity	Active	0.50
	Corporate Bond	Active	0.25
	Property	Active	0.75
	Balanced Pathway	Active	0.44
	Cash Fund	Passive	0.10
BlackRock	BlackRock Aquila Life UK Equity Index	Passive	0.20
	Aquila Life Over 15 Year Gilts	Passive	0.15

## Investment consultancy fees

The investment consultant provides agreed services on a fixed fee basis, with additional projects provided on a time cost basis subject to agreement in advance.

The basis of remuneration is kept under review.



