Stewart Hughes No. 2 Limited Retirement Benefits Scheme

Annual statement of Governance by the Chair of the Trustee for the year to 31 March 2020

What is this Statement for?

It's important that you can feel confident that your savings in the Scheme ("the Scheme") are being looked after and give good value.

This Statement sets out how the Trustee has managed the Scheme in the last year and what it aims to do in the coming year.

A copy of this Statement, together with other key Statements about how the Scheme is managed are posted on-line at https://www.mygepension.com/assets/documents/chairs-statement.pdf.

What's in this Statement?

We've included information on the following areas in this Statement:

1 **How we manage your Scheme** – who the Trustee is and what guides our decision making;

2 **Investment options** – what we have done to review the performance, strategy and suitability of the Scheme's investment options, especially those used by members who don't want to make an investment choice (known as the "default arrangement");

3 **Cost and charges** – what costs and charges you have paid in the last year and how these might impact the size of a typical member's savings in the Scheme over time;

4 **Value for Members** - how the quality of the Scheme's services (including the investment returns on your savings) which you pay for compare to other pension schemes.

5 **Administration** – how well the Scheme has been administered including how promptly and accurately key transactions (such as the investment of your contributions) have been processed;

6 **Trustee knowledge** – what we as Trustee have done to maintain our level of knowledge and obtain the professional advice we need to look after the Scheme for you; and

7 **Our plans for the next year** – what key actions the Trustee took in the last year and what we aim to do in the coming year to continue to improve the Scheme for all our members.

What were the highlights from the last 12 months?

We can confirm to you that:

1 How we manage your Scheme

Harshal Chaudhari and Stuart Bage were appointed as new Trustee Directors in December 2019, replacing Christoph Reimnitz and Matt Zakrzewski who ceased to be Trustee Directors in October and December 2019 respectively. Chris Clarke also ceased to be a Trustee Director on 31 March 2020 and was replaced by Scott Hodgson on 1 April 2020.

The Statement of Investment Principles, which sets out the Trustee's policies on how your contributions should be invested, was updated in September 2019 (and is currently undergoing further review in 2020) to reflect how the Trustee monitors fund managers, their performance and their position on environmental, social and governance issues

2 Investment options

We completed a review of the Scheme's default arrangement in February 2020. We're satisfied that the default arrangement has performed in-line with our objectives and remains suitable for most members – see section 2 for more details. The next full review of the investment options will be carried out by February 2023.

There have been no changes to the investment options in the last year.

3 Costs and charges

You pay for the Scheme's investment, administration and communications while the Company pay for part of the Scheme's communications and all of the governance (i.e. the way in which the Scheme is run).

We monitored the costs and charges going out of members' pension pots during the last year:

The Scheme is invested through a "With-Profits" Fund. This means the investment returns, charges and costs are pooled across all policyholders. The implicit charge in the last year for the "default arrangement" was 0.484% of the amount invested (or put another way £4.84 for every £1,000 invested) – which is well within the "charge cap" for auto-enrolment in our Scheme required by the Government.

We have also looked at how the costs and charges taken out of a typical member's pension pot each year might affect its future size when they come to retire. For an average member with pension savings of £10,000, the current level of costs and charges for the Scheme's default arrangement could reduce the size of a pension pot by £1,600 leaving £10,000 at age 65.

4 Value for Members

Each year we look at the costs and charges you pay as well as the range and quality of the services you pay for and see how they compare with similar pension schemes.

We found that the Scheme gave good value in the last year. Over the next year our main priority to maintain value for you will be to continue to monitor your provider's performance and to try to obtain information on administration performance from your provider, Phoenix Life ("the Provider") – see section 8 for more details.

5 Administration

The Trustee is unable to comprehensively monitor the administration of the Scheme as there is not detailed information available to them. The Trustee has approached Phoenix Life, to ask them to make data on performance against service levels available so that they can monitor the administration quality of the Scheme, however, Phoenix Life have confirmed that this is not possible as there are no scheme specific service levels for this Scheme and they do not publish their performance against their general service levels.

The Trustee has again asked for detailed information on performance standards from Phoenix Life and will continue to pursue this with Phoenix Life.

The Covid-19 pandemic inevitably affected the Scheme between March and July 2020 while:

- Phoenix Life arranged for most of its staff to work from home and dealt with increases in staff absences;
- Trading in underlying property funds was suspended because of the difficulty in fairly valuing properties, and
- There were delays in getting some underlying funds' unit prices because the prices of investments were fluctuating more than normal.

We are comfortable that the crisis was generally handled well by Phoenix Life and are confident that members were not adversely impacted in terms of the key transactions

6 Trustee knowledge

It's important that we, as Trustee Directors, keep our knowledge of pension and investment matters up-to-date and have access to sound professional advice.

Harshal Chaudhari and Stuart Bage became Trustee Directors in the last year and have been through a thorough training programme. During the last year the Trustee Directors attended training sessions on subjects such as Administration and the Legal updates and checked our level of knowledge and understanding by carrying out regular assessments to confirm and identify any gaps – see section 6 for more details.

Hymans Robertson are the Scheme's investment and DC adviser and Eversheds Sutherland are the Scheme's legal advisers. There have been no changes to the Trustee's advisers during the year. We regularly review our advisers and are comfortable that they continue to perform well.

Overall, the Trustee considers that the Trustee Directors have the right skills and expertise together with access to good quality professional advice so that they can run your Scheme properly.

7 Our plans for the next year

During the last year the Trustee:

- carried out a review of the default arrangement to ensure it remains suitable for you;
- asked Phoenix Life to put in place SLAs for the Scheme and report on their internal SLAs; and
- reviewed their professional advisers to ensure they are receiving good and appropriate advice.

During the next year the Trustee aims to:

- Update the SIP to reflect the 2019 Regulations on Responsible Investment which come into force on 1 October 2020;
- Continue to review and consider any required action to ensure that any missing information is obtained, such as trying to get information on administration performance from the provider; and
- continue to monitor Value for Members during the next 12 months.

The remainder of this Statement goes into more detail - please read on if you want to find out more about how we have managed your Scheme in the last year.

We hope this Statement is of help to you Planning for your future. If you have any questions, please contact the Scheme Secretary on ge.secretarial@aon.com.

Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the Scheme, to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement describing how these governance requirements have been met.

This Statement covers the period from 1 April 2019 to 31 March 2020.

For the record
This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Name: Mark Elborne Date: 29 September 2020

Chair of Trustee of the Stewart Hughes No 2 Limited Retirement Benefits Scheme

1 How we manage your Scheme

The Trustee of the Scheme is GE Pension Trustees Limited. At 31 March 2020, the Trustee Directors of the Scheme were:

Mark Elborne (Chair of Trustee); Martin Bath; Kerrie Rowland-Tew; Ian Chadwick; Jane Snelling; James Heenan; Stuart Bage; Harshal Chaudhari and Chris Clarke.

Harshal Chaudhari and Stuart Bage were appointed as a new Trustee Directors in December 2019, replacing Christoph Reimnitz and Matt Zakrzewski who ceased to be Trustee Directors in October and December 2019 respectively. Chris Clarke also ceased to be a Trustee Director on 31 March 2020 and was replaced by Scott Hodgson on 1 April 2020

The Statement of Investment Principles sets out the Trustee' investment policies which the Trustee, with the help of their advisers, review at least every three years. The last review was carried out in 2020 and the Statement was changed in September 2019 to reflect how the Trustee monitors fund managers, their performance and their position on environmental, social and governance issues.

2 Investment options

Default arrangement

The Scheme is designated as a qualifying workplace pension scheme for automatic enrolment purposes; therefore, it is required to have a default fund. The Scheme only offers one fund - a with-profits fund - which members are automatically invested into to, which is therefore the default arrangement. This is the only investment fund associated with the Scheme and the fund closed to new entrants in 2011. The fund is the Scottish Mutual traditional With-Profits Fund and the provider is Phoenix Life.

The main investment objectives for the default arrangement is to help deliver good member outcomes at retirement. The arrangement has inherent investment guarantees and aims to provide a pension (or a lump sum) for members at retirement. More information is detailed in the Statement of Investment Principles (see page 3) which is appended to this Statement.

The Trustee believes that the default arrangement is appropriate for the majority of the Scheme's members because:

- members were offered the option to move their funds to a unit linked arrangement, and have an ongoing option to move, but chose to stay invested in the With-Profits arrangement;
- the fund has provided strong returns in recent years; for example, it provided a return of 6% in the year ending 31 March 2020 and the year prior to that, and
- the arrangement offers valuable guaranteed annuity rates.

The Trustee formally reviews both the investment performance against the default arrangement's objectives and the suitability of the investment strategy at least every three years.

A full review of the performance, strategy and suitability of the default arrangement was conducted on 13 February 2020. It is intended that the next full review will take place by February 2023 or immediately following any significant change in investment policy or the Scheme's member profile.

Following the February 2020 review, the Trustee was satisfied that the default arrangement performance and strategy are consistent with its objectives and that the default arrangement remains appropriate for the majority of the Scheme's members because:

- Its investment performance has been consistent with its investment objectives;
- Its design continues to meet its principal investment objectives;
- The demographic profile of the membership has not changed materially; and
- Members' needs and likely benefit choices at retirement have not changed materially.

As a result, there were no changes to the default arrangement as a result of this review.

3 Costs and charges

The charges and costs borne by members and/or the Company for the Scheme's services are:

Service	By members	Shared	By the Company
Investment management	✓		
Investment transactions	✓		
Administration		✓	
Governance			✓
Communications		✓	

Basis for cost sharing: Members pay an annual management charge that covers the costs of investment fees; administration and communications issued by the administrator.

The presentation of the charges and costs, together with the projections of the impact of charges and costs, takes into account the statutory guidance issued by the Department for Work and Pensions.

Charges

The Scheme offers only one fund – a With-Profits fund - which members are automatically invested into; the Scottish Mutual Traditional With-Profits Fund.

There are two implicit charges allowed for in the bonus calculations relevant to the fund:

- 0.408% per policy expense, which covers a fair share of the administration expenses of the fund; and
- 0.076% investment expense.

Given the above, the charges for the fund were 0.484% of the amount invested or, put another way, £4.84 per £1,000 invested.

It should be noted that these figures are indicative only as charges in a With-Profits funds are effectively averaged across all policy holders and it is not possible to determine the exact charges and costs borne by the members of our Scheme

Transaction costs

Transaction costs for the investment option

The charges and transaction costs for With-Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, the charges and transaction costs are effectively averaged across all policyholders and Phoenix Life have explained it is not possible to determine the exact charges and transaction costs borne by the members of our Scheme, however, the implicit charges used by Phoenix Life in their bonus calculations are set out above. The Trustee continues to engage with Phoenix Life to try to obtain more specific information about charges and transaction costs.

The Principles and Practices of Financial Management for the Scottish Mutual With-Profits Fund managed by Phoenix Life state that, in setting the expense parameters for traditional with-profits business, the levels are chosen so that if applied across all policies they give an overall level of expenses close to the actual expenses apportioned to the fund. The With-Profits Funds average transaction costs are not disclosed.

It should be noted that the implicit costs and charges for the With-Profits Fund cover the cost of guarantees and reserving as well as investment management and administration services.

Member-borne charges

The charges above have been supplied by the Phoenix Life.

Impact of costs and charges - illustration of charges and transaction costs

The Trustee has asked the Scheme's provider to illustrate the impact over time of the costs and charges borne by members.

These illustrations show projected fund values in today's money before and after costs and charges for typical members at stages from joining the Scheme at age 35 up to retirement.

The tables in Appendix 3 to this Statement show these figures for the default arrangement, together with a note of the assumptions used in calculating these illustrations.

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

As an example, for a member who joined the default arrangement at age 35, with initial pension savings of £10,000, the level of charges and costs seen in the last year would reduce their projected pot value at retirement in today's money from £11,600 to £10,000.

Notes on illustrations

- These illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow;
- These illustrations have also been calculated using the fund's implicit charges only as transaction costs are not currently available and so may understate the impact of costs and charges.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

The assumptions used in these calculations are set out in Appendix 3.

4 Value for Members

Each year, with the help of their advisers, the Trustee reviews the charges and transaction costs for the default arrangement, which are borne in full or in part by members, and carries out an assessment of whether they represent good Value for Members. Value is not simply about low cost – the Trustee also consider the quality and scope of provision (for example the quality of administration and the communications provided) compared against similar schemes and available external benchmarks.

Approach

The Trustee adopted the following approach to assessing Value for Members in the year ending 31 March 2020:

- **Services** – considered the investment management, administration and communication services where members bear or share the costs;
- **Outcomes** – weighted each service according to its likely impact on outcomes for members at retirement and the value the Trustee thinks members will place on each;
- **Comparison** – the cost and quality of each service were compared against similar schemes and available external comparisons;
- **Rating** – each service was rated on the below basis.

Results for the Year ending 31 March 2020

The Trustee, in conjunction with our advisers, concluded that the Scheme gave **Good** Value for Members in the year ending 31 March 2020. The Trustee also decided that the Scheme gave **Good** Overall Value for Money (a wider rating of value including aspects paid for by the Company) in the year ending 31 March 2020.

The ratings and weightings used for the assessment were:

Rating	Definition
Excellent	The Trustee considers the Scheme offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes.
Good	The Trustee considers the Scheme offers good value for members, providing services at better quality/cost compared with typical options for similar schemes.
Average	The Trustee considers the Scheme offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes.
Below average	The Trustee considers the Scheme offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.
Poor	The Trustee considers the Scheme offers poor value for members providing services, within the bottom 20% quality/cost range compared with typical options for similar schemes.

With Profits

The Scheme only has one investment fund associated with it. This is the Scottish Mutual traditional With-Profits Fund and the provider is Phoenix Life. Value for Members in respect of the charges and transaction costs for With Profits Funds cannot be easily assessed because:

- Investment returns, charges and costs are pooled across all policyholders;
- Each member will have a different perception of the value of the guarantees, and
- There is a general lack of transparency in the way With Profits funds are run.

However, considering the operation of the fund at a general level, the Trustee believes that:

- the process for turning investment returns into bonuses may be expected to deliver modest investment returns to members over time; and
- the guarantees and smoothing of investment returns are likely to be of reasonable value to members.

The assessment of Value for Members in respect of With Profits funds will, for the time being, involve a greater degree of subjectivity than is the case for unit-linked funds.

Rating rationale

The rationale for the rating of each service was in outline:

Value for money Service and weighting (Overall value for money weightings)	Rating	Rationale
Investment **65% / (62.5%)**	**Good**	The overall implicit charge for the arrangement is 0.484%, which falls well within the 0.75% p.a. charge cap requirement. This charge is made up of a per policy expense charge of 0.408%, which covers administration expenses, and an investment expense charge of 0.076%. There is not sufficient information available to compare the charges with other With Profits arrangements, however, the Trustee notes that this compares well to the DWP pensions survey average charge of 0.61% p.a. for a trust based qualifying scheme with 12-99 members. The Trustee believes that the default arrangement is appropriate for the majority of the Scheme's members because: • members were offered the option to move their funds to a unit linked arrangement and have an ongoing option to move, but chose to stay invested in the With Profits arrangement; • the fund has provided strong returns in recent years, for example it provided a return of 6% in the year ending 31 March 2020 and the year before; • the arrangement offers valuable guaranteed annuity rates, and • The Trustee are satisfied that the investment options are suitable for the Scheme's membership because they carried out a review of the default investment strategy in February 2020, which included analysis of membership demographics and pot sizes.

		The Statement of Investment Principles ("SIP") was last reviewed in September 2019, when changes reflecting the Trustee's policy on responsible investment were documented.
Administration 10% / (7.5%)	**Below average**	The scheme administrators, Phoenix Life, work to set service standards, however, there are no specific SLAs for this Scheme and Phoenix Life have confirmed that they cannot put these in place. The Trustee has repeatedly requested information on the Phoenix Life's performance against SLAs but were informed that that this is not available as they do not publish their SLAs. The Trustee will continue to pursue this with Phoenix Life. Phoenix Life have confirmed that they aim to process at least 85% of Pension claims and 87% of Pensions Servicing within 5 days, and they usually exceed these levels. Scheme level requests can take up to 6 weeks to action, but they try to action these as quickly as possible. The Trustee are unable to fully assess the processing of core financial transactions or administration standards as reporting on service levels is not available, however: • as there is only one fund option available, there is no option for members to switch funds; • contributions received by the Scheme were paid in accordance with the Payment Schedule dated 25 October 2013; • Phoenix Life have set service levels as set out above, although we have no evidence of their performance against these, and • the Trustee has not been made aware of any complaints from members over administration standards. In the absence of sufficient performance reporting to allow them to compare with the wider market, the Trustee have concluded that they must rate administration services as below average. Fitch Ratings have assigned an insurer financial strength rating of A+ with a stable outlook, which indicates that they are financially sound.
Communication 25% / (22.5%)	**Average**	Members pay for communications provided by Phoenix Life; these are limited to annual benefit statements and communications at retirement and are of a similar quality to the typical communications for similar schemes, offering average value for members. GE offers fully-funded pre-retirement seminars to all members and their spouses, and releases communications at appropriate times, such as the tax year end and the flexible benefits enrolment window, to encourage engagement and informed decision making. The Trustee has received feedback from members to say that the pre-retirement seminars are of good quality, provide value to members in their retirement decision making process and that it is helpful that they are inclusive of spouses. These seminars also cover matters outside of pension, but which can be influential in terms of determining expected expenditure in retirement, such as tax, health and travel costs.

Governance and Scheme management is not included in the Value for Members assessment as it is paid for by the Company, but it can be included in the overall value for money assessment.

Service and weighting	Rating	Rationale
Governance (7.5%)	**Good**	The GE Pension Plan, which is also run by the Trustee, is subject to supervision by the Pensions Regulator, who has been satisfied with their standards of governance, including the business continuity planning and Board resilience in the face of the pandemic situation. The governance of the Scheme is carried out in conjunction with that of the GE Pension Plan, therefore the same standards of governance apply to the Scheme. The Trustee met four times during the last year and reviews the governance of the Scheme (in conjunction with their specialist DC advisers) on a regular basis and ensures that all Trustee Directors have relevant training and understanding whilst also keeping up to date with any regulation changes.

5 Administration

The Trustee appointed Phoenix Life to administer the Scheme on their behalf.

The Trustee has not been provided with comprehensive information regarding the performance of the Scheme administrators or the processing of core financial transactions. Core financial transactions include (but are not limited to):

- The receipt and investment of contributions (including inward transfers of funds); and
- Payments of benefits (including retirements and outward transfers of funds).

This section includes the steps that the Trustee has taken and will take to obtain comprehensive information.

The Trustee does not have any scheme specific service level agreements in place with the provider, the Trustee has made (and continues to make) attempts to put service level agreements in place, but the provider is not able to put these in place. The provider does however have general service levels of 5 working days which cover the accuracy and timeliness of all core financial transactions such as:

- The investment of contributions;
- Providing quotations of benefits to members who are retiring or leaving the Scheme;
- Payments of benefits;
- Producing annual benefit statements; and
- Responding to ad hoc enquiries from members.

The provider aims to complete 85% of pension claims requests and 87% of pensions servicing requests within these service levels. They have confirmed that they have achieved or bettered these standards, often achieving 90%+ on a monthly basis, however as there is no scheme specific reporting, it is not possible to tell if these were met for requests in relation to the Scheme.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings have been paid promptly to the Scheme by the Company; and
- Considering member feedback including any complaints.

To the extent possible (on the basis of information available to it), the Trustee also assessed the accurate and timely processing of core financial transactions (and administration service levels) relating to the Scheme, and ensured (to the extent possible) that no issues arose. The assessment found that

- as there is only one fund option available to members, there is no option for members to switch funds;
- contributions received by the Scheme were paid in accordance with the Payment Schedule dated 25 October 2013;
- Phoenix Life have set service levels of dealing with all member requests within 5 working days, and
- the Trustee has not been made aware of any complaints from members over administration standards and Phoenix Life have confirmed that there were no member complaints.

The Trustee took the below actions following the above issues (which relate to not being provided comprehensive information about the processing of core financial transactions and administration service levels during the year):

- The Trustee has repeatedly requested comprehensive information, but it was not available.
- The Trustee will continue to request this information from Phoenix Life and specifically engage with Phoenix Life in relation to the processing of core financial transactions.

Security of assets

The situation regarding the security of where pension contributions are invested is complex. It can vary from scheme to scheme and from fund to fund within each scheme. To-date there have only been a few instances where members of Schemes such as ours have seen their benefits reduced as a result of a financial failure of a provider or fund manager.

The funds are provided through a policy of insurance issued to the Trustee by Phoenix Life. As a result, the value of the funds may be affected in the event of Phoenix Life getting into financial difficulties.

The Scheme's DC assets held under the policy with Phoenix Life are covered by the Financial Services Compensation Scheme ("FSCS") in the event of Phoenix Life getting into financial difficulties. However, losses would not be covered by the FSCS if the fund managers used by Phoenix Life get into financial difficulties.

The Trustee will continue to keep this under review. The Trustee takes the security of assets into account when selecting and monitoring the funds used by the Scheme.

6 Trustee knowledge

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Sections 247 and 248 of the Pensions Act 2004 require that the Trustee Directors must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual to exercise his or her functions properly as a Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to funding and investment the of assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee's current practices to maintain and develop their level of knowledge and understanding of matters relating to the Scheme are:

- there is an induction process for newly appointed Trustee Directors, who are asked to complete the Pensions Regulator's "Trustee Toolkit", which is a free online learning programme aimed at trustees of occupational pension schemes and is designed to help trustees meet the minimum level of knowledge and understanding required by law. Trustee Directors appointed during the scheme year completed this and also received bespoke training from each of the Scheme's legal, actuarial and investment advisers. They were also provided access to the Scheme documentation which they were encouraged to read;
- the Trustee receives training when the Scheme's governing documentation is amended or updated and refers to the Deed and Rules in relation to all decisions in relation to the Scheme;
- the Scheme's investment advisers provide training to ensure that the Trustee has a working knowledge of the Scheme's Statement of Investment Principles as well as funding and investment principles (including the investment concepts relevant to the Scheme);
- the Scheme's legal advisers provide regular training to ensure that the Trustee has a working knowledge of the law and legislation relating to pension schemes, the Trustee's current policies and the Scheme's governing documentation;
- the Trustee are encouraged to undertake further study and qualifications which support their work as Trustee Directors;
- the Trustee has a plan in place for ongoing training appropriate to their duties;
- the effectiveness of these practices and the training received are reviewed at least quarterly;
- the Trustee carries out regular assessments to confirm and identify any gaps in their knowledge and skills; and
- The Trustee also receive quarterly "hot topics" from their adviser covering technical and legislative/regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general; and
- a weekly horizon scanning document is available for Trustee Directors which lists upcoming legal and regulatory developments by sub-committee relevance.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material.

All of the Trustee Directors have access to copies of and are familiar with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and Statement of Investment Principles ("SIP"). The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme, and the SIP is formally reviewed at least every three years and as part of making any change to the Scheme's investments.

A training log is maintained in line with best practice and the training programme is reviewed quarterly to ensure it is up to date.

In addition to the training set out above, the Trustee is encouraged to attend external training courses and a schedule of opportunities is distributed on a monthly basis. Directors are asked to update their training logs on a quarterly basis and are asked to complete a Knowledge and Understanding questionnaire on an annual basis in order to identify gaps of knowledge within the Trustee Board.

During the period covered by this Statement, the Trustee received training on the following topics:

Date	Topic	Aim/benefit	Trainer
30 April 2020	Covenant Update	The Trustee was updated on the covenant of the sponsoring employer which allows them to make informed decisions about the Scheme's funding and future security.	WTW Covenant
30 April 2020	Administration	Update the Trustee on the Scheme Profile. Benefits the Trustee as they are more aware of Scheme membership.	WTW Admin
23 October 2020	Legal	The Trustee were given an update on recent Pensions Ombudsman cases, which benefits them by giving them awareness of potential issues which could results in the involvement of the Ombudsman and the actions they could take to avoid these.	Eversheds Sutherland
Quarterly	Legal training	The Scheme's legal advisers provide training and updates to the Trustee Directors at each Board meeting, which increases the Trustee Directors' understanding of legal matters concerning the Scheme including a working knowledge of the Scheme's Trust Deed and Rules.	Eversheds Sutherland
Quarterly	DC update	The Scheme's DC advisers provide updates to the Trustee at each Board meeting on developments in the DC market and regulatory and legislative changes, which increases the Trustee's understanding of DC pensions and requirements and helps them to effectively manage the Scheme's DC benefits.	Hymans Robertson

The Trustee is also the Trustee of the GE Pension Plan and they govern the two schemes together. The Trustee also receives training specific to the GE Pension Plan, which is subject to one to one supervision by the Pensions Regulator, on topics such as investment strategy. Therefore, while this does not directly relate to the Stewart Hughes Scheme, it increases the Trustee's knowledge and can help in its management of the Scheme.

The Trustee has appointed suitably qualified and experienced actuaries, legal advisers, investment consultants and DC consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee review the effectiveness of its advisers annually and provides feedback to the advisers, and periodically reviews the appointment of its advisers. The Trustee undertook the following reviews during the last year:

Date	Review of
Q3 2019	The practices to maintain and develop Trustee knowledge and understanding
Q3 2019	The effectiveness of the training programme and training for the coming year
Q3 2019	Assessments to identify any gaps in the Trustee' knowledge and skills
Q4 2019	Assessed the overall effectiveness of the Trustee Board against the objectives of the Scheme's business plan
Q4 2019	Formal review of legal advisers
Q1 2020	Effectiveness of advisers

The Trustee is satisfied that during the last year they have:

a) Taken effective steps to maintain and develop their knowledge and understanding; and

b) Ensured they received suitable advice.

The Trustee is satisfied that the combination of their knowledge and understanding together with access to suitable advice enabled them to properly exercise their duties during period covered by this Statement.

7 Our plans for the next year

During the last year the Trustee undertook the following (over and above "business as usual"):

- Improved Value for Members by:
    - Reviewing the Scheme's default strategy to ensure it remains suitable for the membership and provides good Value for Members
    - Repeatedly asking the provider to put in place SLAs for the Scheme or report on their internal SLAs
- Arranged for the publication of this Statement, together with the Statement of Investment Principles in a publicly searchable location on the internet with a note of this location in the annual benefit statements;
- Updated the Statement of Investment Principles to reflect the September 2018 Regulations on Responsible Investment which came into force on 1 October 2019.

In the coming year (which will be covered by the next Statement), the Trustee intend to carry out the following:

- Improve Value for Members by:
    - continuing to monitor Value for Members during the next 12 months
    - The Trustee will continue to seek the relevant missing information from providers, by making multiple requests before the next year end
- Update the SIP to reflect the 2019 Regulations on Responsible Investment which come into force on 1 October 2020

The Trustee believes that this work will help you get the best out of our Scheme.

Missing information and limitations

The Trustee has been unable to obtain information on:

- Exact details of charges and transaction costs specific to the Scheme.
- Details of the underlying funds, including their International Securities Identification Numbers (ISINs), in which the provider's With Profits fund are invested;
- Reports on how well the provider has met its administration service levels; and
- Reports from the provider on the processing of core financial transactions.

This means that some information is missing for the period covered by this Statement.

The following steps are being taken to obtain the missing information for the future:

- The Trustee have repeatedly requested regular reporting on service levels and processing of financial transactions from Phoenix Life but have been informed that they do put in place scheme specific service levels and they do not publish performance against their general service levels. The Trustee will continue to pursue this with Phoenix Life

The missing information listed above means that the Trustee has not been able to:

- Fully assess the accuracy and timeliness of core financial transactions, and
- Fully compare the quality of the administration against other schemes.

The Trustee also notes the following limitations:

- At this time, limited data is available on industry-wide comparisons of pension schemes and has relied heavily on the market knowledge of its advisers; and
- There is limited transaction costs data available to provide industry-wide comparisons.
- Value for Members in respect of the charges and transaction costs for With Profits Funds cannot be easily assessed because:
  - Investment returns, charges and costs are pooled across all policyholders;
  - Each member will have a different perception of the value of the guarantees, and
  - There is a general lack of transparency in the way With Profits funds are run.
- The assessment of Value for Members in respect of With Profits funds will, for the time being, involve a greater degree of subjectivity than is the case for unit-linked funds.
- Due to the collective nature of With Profits funds in general, it is not possible for the Trustee to take steps to improve the value of the With Profits funds in relation to costs and charges compared to expected returns. The Trustee must rely on the With Profits Committee for the With Profits fund's consideration of matters affecting the interests of policyholders including fair pay-outs.
- The only area where the Trustee may be able to improve Value for Members is in respect of the administrative services members can access, however, with many With Profits funds closed to new business and administered on legacy administration platforms, the scope for improving these services is often limited.

The Trustee understands that these issues currently affect many pension schemes and pension providers. The amount of comparative information available should improve over the next few years.

Stewart Hughes Ltd No.2 Retirement Benefits Scheme

Statement of Investment Principles

September 2020

Contents

Introduction

The law requires the Trustee Directors to produce formal "Statement of Investment Principles" for the Scheme's default arrangement and any other investment options. These Statements set out what the Trustee Directors aim to achieve with the investment options and their investment policies which guide how members' money is invested.

This document forms the Statement of Investment Principles for the Stewart Hughes Ltd. No 2 Retirement Benefits Scheme (the "Scheme"). The Statement must cover a number of technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme's Auditors which, as far as possible, are shown separately in "for the record" boxes.

The Trustee Directors will publish the Statement of Investment Principles from 1 October 2019 and a statement each year from 1 October 2020 describing how this Statement has been followed in the last year.

Statement of Investment Principles

The aspects covered by this Statement of Investment Principles include the:

1 Statement of the aims and objectives for the default arrangement*;

2 Statement of investment beliefs, risks and policies**.

The Statement of Investment Principles for the Scheme's default arrangement *** comprises items 1 and 2.

Appendices

A. Investment implementation for the default arrangement;

For the record

* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

The Trustee Directors have taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles.

These Statements will be reviewed at least every three years or more frequently as required by the Regulations.

For and on behalf of the Trustee Directors of the Scheme

Name	Signed	Date
Mark Elborne	*ME*	29 September 2020

1 Statement of the aims and objectives for the default arrangement

Default Arrangement

The Scheme is designated as a qualifying workplace pension scheme for automatic enrolment purposes, therefore it is required to have a default fund. The Scheme only has one with-profits fund, which members are automatically allocated to, which is therefore the default arrangement. This is the only investment fund associated with the Scheme.

The main objective of the fund is to help deliver good member outcomes at retirement.

The default arrangement was set up many years ago with the then Scottish Mutual Assurance Limited. It is a traditional With-Profits arrangement and is now managed by Phoenix Life Limited. The arrangement has inherent investment guarantees and aims to provide a pension (or a lump sum) for members at retirement. The arrangement is managed consistently with the Principles and Practice of Financial Management as set out by Phoenix Life Limited in relation to ex-Scottish Mutual Assurance Limited With-Profits arrangements.

The expected levels of investment returns (after the deduction of charges) and risks for the fund used are consistent with the Trustee Directors' objectives for the default arrangement and consistent with a With-Profits arrangement which includes significant investment guarantees to the members. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 2.

Full details of the current default arrangement are given in appendix A.

2 Statement of investment beliefs, risks and policies

Introduction

This Statement sets out the investment beliefs and policies which guide the Trustee Directors' decision making.

For the record

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

This Statement of investment beliefs has been prepared in accordance with the Occupational Pension Scheme (Investment) Regulations 2005 as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

Risks

Principal investment risks

The Trustee Directors believe that the three principal investment risks most members will face are:

1) Inflation risk – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by funds investing in equities and other growth orientated assets which are expected to produce returns well in excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

2) Benefit conversion risk – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

3) Volatility/Market risk – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

Other investment risks

The Trustee Directors believe that other investment risks members may face include:

Active management risk – a fund manager's selection of holdings may not lead to investment returns in line with the fund's objectives and investment markets generally.

Currency risk – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

Interest rate risk – the value of funds which invest in bonds will be affected by changes in interest rates.

Default risk – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

Liquidity risk – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

Counterparty risk – the financial institutions holding a fund's assets may get into financial difficulties leading to a reduction in a fund's value.

Market risks - Shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term.

Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

Managing risks

Principal investment risks

The With-Profits arrangement, managed by Phoenix Life Limited, manages the three main investment risks. The fund seeks to provides a level of guarantee and additional return that, although not guaranteed, would be expected in total to deliver a return commensurate with inflation over the long term. The With-Profits arrangement is managed so to smooth the returns to members so ensuring members are not exposed to wide fluctuations in investment markets close to retirement. The With-Profits fund is also invested significantly in fixed interest instruments consistent with targeting a pension income in retirement.

Other investment risks

Trustee Directors delegate the management of the other risks, including ESG and climate change risks to Phoenix Life Limited who manage these risks in line with their Principles and Practices of Financial Management.

Financially material considerations

The Scheme uses a single With-Profits arrangement with Phoenix Life Limited and expects the fund manager to take financially material considerations into account when selecting which companies and markets to invest in. The Trustee Directors recognise that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustee Directors further recognise that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee Directors will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will require that their investment manager ensures it takes such considerations into account within its decision making. The Trustee Directors have explicitly acknowledged the relevance of or ESG factors in framing their investment beliefs and these beliefs are reflected in the principles set out below and the broader implementation of strategy.

Expected returns on investments

The Trustee Directors believe that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account).

Asset class	Expected long-term investment returns relative to inflation	Expected shorter- term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

Long-dated Bonds (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

Responsible Investment (i.e. funds selecting assets to mitigate ESG and/or climate change risks) – the strategy of these funds is expected to give a better risk adjusted return over the long-term than the broader market for the type of assets involved (e.g. equities).

Investment beliefs

The Trustee Directors' investment decisions are made in the context of their investment beliefs that:

- Managing the principal investment risks is the most important driver of good long-term member outcomes;
- Investment markets may not always behave in line with long-term expectations during the shorter-term;
- As the Scheme invests for members over the long-term, financially material considerations including the impact of climate change will have a bearing on funds' expected levels of risk and return;
- Taking investment risk is usually rewarded in the long term;
- Investment risks can be reduced by spreading investments both within and across asset classes;
- Charges and costs (levied by fund manager and platform providers) can have a material effect on net returns.

Types of funds used

Delegation of investment decisions

The Scheme uses a single With-Profits arrangement provided by Phoenix Life Limited. and have delegated day to day investment decisions including the management of financially material considerations to Phoenix Life Limited's fund manager.

Manager incentives

The expenses of managing the With-Profits arrangement are taken off the investment return before bonuses are added to the member's policy. The management and deduction of expenses is set out in the Principles and Practices of Financial Management.

There is also an annual policy charge payable by the employer.

When selecting funds, the Trustee Directors will ask their investment advisor to consider the investment manager's remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment manager will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee Directors conduct an annual Value for Members assessment and will take action should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee Directors will periodically review the Scheme's choice of provider to ensure their charges and services remain competitive. The Trustee Directors believe that these steps are the most effective way of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustees also undertake a review at least every three years in which the appropriateness of the investment options and the suitability of the Scheme's investment management arrangements are considered.

The Trustee Directors monitor the performance of the fund against its's performance target on a rolling annual basis. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

Portfolio turnover

The Trustee Directors do not expect the investment manager to take excessive short-term risk and will monitor the fund performance against objectives on a short, medium and long terms basis.

When selecting actively managed funds, the Trustee Directors will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Where a fund has significantly under or outperformed its benchmark, the Trustee Directors will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustees will challenge the platform provider and/or investment manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Portfolio duration

The Trustee Directors recognise the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The Trustee Directors will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee Directors expect that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

Security of assets

The funds are provided through a policy of insurance. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties. The Trustee Directors periodically review the credit rating of Phoenix Life Limited.

Realisation of investments

The Trustee Directors understands that the nature of a With-Profits arrangement means that members may potentially lose guarantees and not maximise their potential outcome from the arrangement if the policy is cashed in early. However, the Trustee Directors also acknowledge that members can surrender their policy and receive a fair value for that policy in the event of surrendering the policy in advance of the agreed target benefit date. The approach to surrender and the policy followed is set out by Phoenix Life Limited in their Principles and Practices of Financial Management. Furthermore, the types of investment that Phoenix Life Limited invest in within the With-Profits arrangement are expected to be compromised mainly of liquid assets (e.g. equities and bonds) that can be realised within a reasonable timescale.

Balance of investments

Overall, the Trustee Directors believe that the Scheme's With-Profits investment option invests in a balance of investments and is appropriate for managing the risks typically faced by members and also consistent with a typical With-Profits arrangement.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with the With-Profits provider with the underlying investment companies.

Members' financial interests

The Trustee Directors expect that the With-Profits provider will have the members' financial interests as their first priority when choosing investments.

Conflicts of interest

When given notice the Trustees will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is investing in new issuance, the Trustee Directors expect the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee Directors will consider any conflicts of interest arising in the management of the funds used by the Scheme and will ensure that each investment manager has an appropriate conflicts of interest policy in place. The Investment manager is required to disclose any potential or actual conflict of interest [in writing] to the Trustee.

Voting and engagement

The Trustee Directors believe that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

The Trustee Directors have adopted a policy of delegating voting decisions on stocks to the With-Profits provider and underlying fund manager on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund manager is expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Monitoring

The Trustee Directors will also periodically review the fund manager's voting patterns and may also monitor voting on particular companies or issues affecting more than one company.

Non-financial factors

The Trustee Directors have considered and recognise that some members may have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested. The Trustee Directors also recognise that within a With-Profits arrangement, which is pooled arrangement across many different populations of members, it is not possible to direct the manager in relation to non-financial factors when it comes to choosing investments. As this is a closed arrangement, and no members have actively expressed the desire for a specific ethical or faith-based option, the Trustee Directors have made the decision not to offer specific funds in this area.

For the record

The Trustee Directors obtain and consider proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

The With-Profits arrangement is intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The With-Profits arrangement is a life insurance company based legal vehicle. The With-Profits arrangement may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares);
- Fixed interest and index-linked bonds issued by governments and companies;
- Cash and other short-term interest bearing deposits;
- Commercial and residential property;
- Illiquid assets including infrastructure, forestry, private equity and private debt;
- Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the With-Profits arrangements contractual terms and polices set out in Principles and Practices of Financial Management the underlying fund manager is given full discretion over the choice of securities. The With-Profits provider is expected to maintain well-diversified and suitably liquid portfolio of investments to back the With-Profits arrangement.

The Trustee Directors consider that these types of investments are suitable for the Scheme. The Trustee Directors are satisfied that the With-Profits arrangement used by the Scheme provides adequate diversification.

Appendix A

Investment implementation for the default arrangement

Default arrangement

The Scheme has a single fund which is a traditional With-Profits arrangement, now managed by Phoenix Life Limited who took over the management from Scottish Mutual Assurance Limited in 2009.

The With-Profits arrangement provides a guaranteed benefit at the member's target retirement date. The guaranteed benefit can increase with annual bonuses and potentially a terminal bonus at the target retirement date. The annual and terminal bonuses are dependent on investment returns on the underlying investments (net of management costs) relative to the already guaranteed returns and are at the discretion of Phoenix Life Limited within their stated policies in relation to the With-Profits arrangement, as set out in their Principles and Practices of Financial Management.

Due to the relatively significant levels of investment guarantees in the With-Profits arrangement, the provider will follow a diversified and cautious approach to investment. For traditional With-Profits pensions arrangements the target asset allocation is 25-35% in investments that are expected to generate a high level of returns in excess of inflation (equities, commercial property and alternative assets) with the remainder invested in fixed interest securities (government or corporate debt instruments) or cash.

As at 31 December 2019, ex Scottish Mutual traditional with-profits pension policies managed by Phoenix Life Limited were invested as follows:

Asset class	%
Company shares (equities)	24
Property	4
Other growth assets	2
Total growth assets	**30**
Fixed interest stocks – issued by the UK government	34
Fixed interest stocks – other (including corporate bonds)	34
Cash	2
Total fixed interest and cash	**70**

Funds and charges

The expenses of managing the With-Profits arrangement are taken off the investment return before bonuses are added to the member's policy. The management and deduction of expenses is set out in the Principles and Practices of Financial Management.

There is also an annual policy charge payable by the employer.

Transaction costs

Transaction costs arise when the fund manager buys and sells the assets held by each fund. These costs are taken into account when calculating the bonuses added to member's policies.

Appendix B
Summary of the approach to investment governance

For the record
The Trustee Directors' approach to investment governance complies with the provisions of the Scheme's Trust Deed and Rules as well as legislative requirements.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

Exercising the Trustee Directors' Powers
The Trustee Directors will always aim to act in the best interests of the members.

The Trustee Directors have delegated day-to-day work on the Scheme's administration and investments. The current service providers to the Scheme together with how they are paid is set out in Appendix D.

Conflicts of interest
In the event of a conflict of interests, the Trustee Directors will ensure that contributions are invested in the sole interests of members and beneficiaries.

Monitoring
The Trustee Directors regularly monitor and review:

Investment Performance - The performance of the With-Profits arrangement funds in which the Scheme invests.

The Statements of Investment Principles - at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership. The Trustee Directors will consult the Employer on any changes.

Reporting
The Trustee Directors arrange for the preparation of:

- The Scheme's audited Annual Report and Accounts (which includes the Annual Governance Statement);
- The Annual Governance Statement by the Chair of Trustee Directors describing the Scheme's investment costs, value for members and governance during the previous year;
- Publication of an extract from the Annual Governance Statement by the Chair of Trustee Directors in a publicly searchable location on-line.
- An annual return to the Pensions Regulator.

Appendix D

Summary of the Scheme's service providers.

The Scheme's current service providers and their basis of remuneration are as follows:

Service	Provider	Remuneration basis
With-Profits arrangement	Phoenix Life Limited	Expenses deducted from the With-Profits fund in line with the policy set out in Phoenix Life Limited's Principles and Practices of Financial Management for its with-profits arrangements
Fund managers	Selected by Phoenix Life Limited	Paid by Phoenix Life Limited from the expenses deducted from the With-Profits fund
Pension administrator	Phoenix Life Limited	Expenses deducted from the With-Profits fund in line with the policy set out in Phoenix Life Limited's Principles and Practices of Financial Management for its with-profits arrangements
Auditor		Fixed fee
Investment Consultant	Hymans Robertson LLP	Time cost fees
Legal advisers	Eversheds Sutherlands LLP	Time cost fees

Appendix 2

Table of funds and charges

2 With Profits fund

Please note that the charges in the table below do take into account the 0.408% charge for administration services, which are also borne by members.

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the default arrangement were:

Fund	ISIN *	Charges **		Underlying Fund	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
Scottish Mutual traditional with-profits	Not available	0.484%	£4.84	Not applicable	Not applicable	n/a	n/a

Source: Phoenix Life

Appendix 3

Tables illustrating the impact of charges and costs

The following tables show the potential impact of the costs and charges borne by typical members on projected values in today's money at several times up to retirement:

For the Scottish Mutual traditional with-profits fund

Years to retirement	Age 35 with an initial pot of £10,000		Age 55 with an initial pot of £50,000	
	Before costs and charges	After costs and charges are taken	Before costs and charges £	After costs and charges are taken £
20	£10,500	£10,000	n/a	n/a
10	£11,000	£10,000	£55,100	£50,200
5	£11,300	£10,000	£56,500	£50,200
At retirement	£11,600	£10,000	£57,900	£50,200

Source: Phoenix Life

Please note that these illustrated values:

- Assume that members are no longer paying contributions into the Scheme;
- The fund growth rate was 3.00%;
- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- The assumptions used may be differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Are not guaranteed;
- May not prove to be a good indication of how your own savings might grow;
- The Trustee has had regard to the statutory guidance in preparing