

Chairman's DC Compliance Statement Year Ending 31 March 2019

Introduction

This statement has been prepared by the Trustee of the Fund, in order to comply with the governance requirements of Regulations¹. It provides details of the Fund's Money Purchase Underpin and AVC arrangements, and is intended to be incorporated into the Trustee's Annual Report and Accounts. This Statement applies to the year ending 31 March 2019.

1 Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

2. The Money Purchase Underpin

The Fund's Money Purchase Underpin ("MPU") arrangements arise in respect of members' Post 1997 Protected Rights Contracting Out benefits ("Post 1997 benefits").

For members that have Post 1997 benefits, a notional MPU fund value is calculated and upon retirement, death or transfer out this is compared to the value of the member's accrued Post 1997 benefits. The pension then paid is the higher of the member's Post 1997 benefits or the MPU fund value divided by an MPU conversion factor.

The investment return applied to the MPU is based upon the return earned on the Fund's assets as disclosed in each year's Annual Report and Accounts. This is based on the gross return before manager fees but after allowing for transaction costs, with the exception of a small 2% holding in a pooled fund where the return is calculated net of fees. This approach has been in place for several years and is in line with the Fund Rules. We consider that using the return earned on the Fund continues to be an appropriate and suitable method for determining members' notional MPU fund values.

3. AVC arrangements

We confirm that there is no default arrangement for AVC members, as no new contributions have been permitted for some years.

Our Investment Committee conducts an annual review of all of our AVC funds (the last was conducted in May 2019), with the objective of ensuring that:

- The fund range remains suitable for purpose;
- The arrangements remain appropriate given prevailing best practice and legislation;
- The providers remain credible;
- Fees are competitive relative to the AVC marketplace; and
- Performance is in line with reasonable expectations.

An in-depth review of the Fund's AVC arrangements was last carried out in 2014/2015. The review resulted in two key changes to the AVC arrangements:

- A lifestyle strategy that glides to 100% cash at retirement was introduced to reflect the expectation that the vast majority of members take their AVCs as a cash sum.

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- The Market Advantage ("ALMA") Fund, a diversified growth option with a lower expected level of volatility than the Consensus Fund was introduced to give members an option to reduce their exposure to equities as they near retirement.

Alongside this, clear member communications were issued, with a focus on making a suitable range of funds available from which members could actively choose.

As a matter of routine, we continue to issue annual communications to all AVC members, reminding them of their fund choices and of their other options.

The Investment Committee also regularly reviews the ongoing suitability of the With-Profits funds, in particular the Equitable Life Fund, including a detailed comparison of members' fund values, an assessment of likely expected future returns and projected Guaranteed Policy Values. At the last such reviews in May 2018 and 2019, we considered the impact of the 35% capital distribution uplift offered to members with AVCs invested in Equitable Life With-Profits fund and the proposed improvements to fund values as a result of the proposed sale of Equitable Life to Utmost Life. As a consequence, it was decided that, in addition to the usual annual communication to AVC members, a separate announcement should now be sent to Equitable Life members whose Normal Pension Age occurs within the period up until the proposed sale date and also to any member seeking early retirement before that date.

No other changes were made as a result of these reviews.

3.1 Fund range

The majority of the funds offered by the Trustee are managed by BlackRock, as part of their passive index range. With effect from 1 July 2018, the platform provider for these funds is Aegon. In addition, a number of members have investments in Equitable Life With-Profits Fund.

The table below sets out the range of funds used by members. The lifestyle arrangements described in the next section use a subset of these funds.

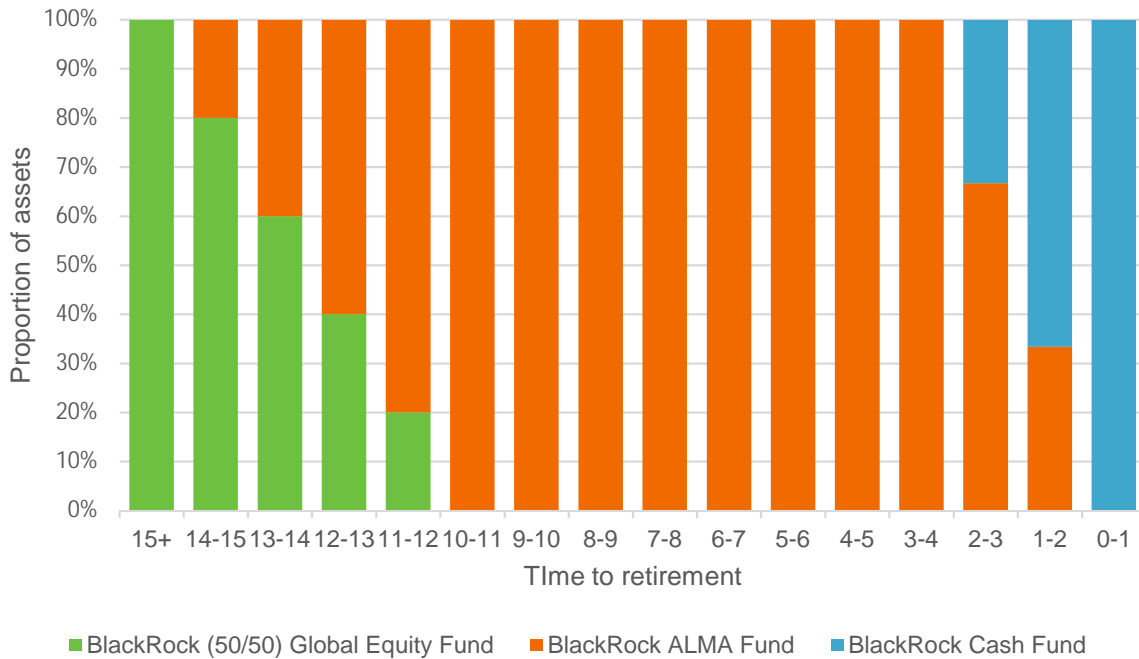
Fund	Asset Class
Aegon BlackRock UK Equity Index Fund	Equity
Aegon BlackRock World (ex-UK) Equity Index Fund	Equity
Aegon BlackRock (50:50) Global Equity Fund	Equity
Aegon BlackRock Market Advantage Fund	Mixed
Aegon BlackRock Consensus Fund	Mixed
Aegon BlackRock > 5 Year Index Linked Gilt Index Fund	Bonds
Aegon BlackRock > 15 Year UK Gilt Index Fund	Bonds
Aegon BlackRock Cash Fund	Cash
Equitable Life Assurance Society	With-Profits

Members are also entitled to transfer their AVCs out of the Fund to an alternative pension arrangement of their own choosing.

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3.2 Lifestyle arrangements

The chart below illustrates the core lifestyle strategy offered to members with AVCs:



Members with investments in the Consensus Fund are also given the opportunity to invest in the lifestyle strategy, with the option of remaining invested in the Consensus Fund instead of the 50:50 Global Equity Fund during the initial growth stage, should they so choose.

As previously mentioned, the Investment Committee carries out an annual review of the ongoing suitability of all AVC funds. In addition, the Investment Committee monitors the performance of the unitised funds each quarter, as well as the level of annual bonus paid on the With-Profits funds.

4. Fund charges and transaction costs

4.1 Fund charges

The Trustee meets all administrative costs associated with the AVC arrangements - the only charges met by members are the annual management charges relating to each individual fund charged by the investment manager, as set out below:

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Fund	Fees * (p.a.)	Total charge
Aegon BlackRock Aquila Life UK Equity Index Fund	0.10%	0.11%
Aegon BlackRock Aquila Life World (ex-UK) Equity Index Fund	0.20%	0.21%
Aegon BlackRock Aquila Life (50:50) Global Equity Fund	0.15%	0.16%
Aegon BlackRock Aquila Life Market Advantage Fund	0.25%	0.28%
Aegon BlackRock Aquila Life Consensus Fund	0.15%	0.17%
Aegon BlackRock Aquila Life > 5 Year Index Linked Gilt Index Fund	0.10%	0.11%
Aegon BlackRock Aquila Life > 15 Year UK Gilt Index Fund	0.10%	0.11%
Aegon BlackRock Aquila Life Cash Fund	0.125%	0.125%

*Annual management charge calculated as percentage of the value of the fund. There is no fee applicable for the Aquila Life Cash Fund but the underlying pooled fund BGI Sterling Liquidity First incurs fees of 0.125% p.a.

The charges for the core lifestyle strategy offered to members with AVCs range from 0.125% at retirement to 0.28% for members at the point of the glidepath which invests in the ALMA Fund, or, put another way, in a range of £1.25 to £2.80 per £1,000 invested. The table below sets out how the fees of the core lifestyle arrangement vary depending on the period until retirement.

Period to retirement	Charges	
	% p.a.	£ per £1,000
Over 15 years	0.16%	1.60
14 years	0.184%	1.84
13 years	0.208%	2.108
12 years	0.232%	2.32
11 years	0.256%	2.56
3-10 years	0.280%	2.80
2 years	0.228%	2.28
1 year	0.177%	1.77
Retirement	0.125%	1.25

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, it is not possible to determine the exact charges and costs borne by members. However, the Principles and Practices of Financial Management for the Equitable Life With-Profits Fund state that the administration and investment charges should average 1%, while there is an additional charge for guarantees of 0.5% (with effect from 31 December 2014).

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4.2 Transaction Costs

Government Regulations expanding the requirements for how charges and costs should be communicated to members were published in February 2018 and come into force for scheme years ending on or after 6 April 2018. The Financial Conduct Authority's ("FCA") rules for fund managers and workplace pension providers on the disclosure of administration and transaction costs came into force on 3 January 2018, at the same time as the European Union's "MiFID II" Directive.

The Trustee notes that:

- Transaction costs will vary from day to day according to each fund's investment approach and prevailing market conditions.
- Transaction costs arise from: a) the fund manager's investment decisions to buy or sell some part of the fund's ongoing portfolio of investments; and b) decisions by investors to purchase or sell units in the fund which in turn entail the purchase or sale of the fund's assets.
- Transaction costs include: custodians' fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).
- As the unitised AVC funds offered are all passively managed, this will tend to result in a relatively low level of transactions, and hence lower associated transaction costs.

The Trustee monitors the performance of each of the AVC funds relative to their respective benchmarks. This provides some visibility of costs over time as any excessive trading and trading costs would typically lead to the manager underperforming their benchmark or target on a consistent basis.

The Trustee has approached the platform provider, Aegon, for information on transaction costs on the funds offered to members. To date, this information has not been provided although the Trustee continues to put pressure on the platform provider to disclose this information. Once this information is available, we will also request our investment advisers to compare the level of transaction costs with other similar funds to ensure that they represent Value for Members.

4.3 Administration

Member data is somewhat static, because the Fund has been closed to new contributions for some years. There is also very limited activity in terms of members switching between funds.

Nevertheless, regular member data quality reviews are undertaken by the administrator and reported to the Trustee. In addition, periodic reconciliations of individual members' AVC funds are undertaken between the administrator's records and those held by the AVC providers.

The Fund Administrator liaises with the AVC providers and operates within agreed service level standards, which are designed to ensure timely and efficient processing of member data and any associated financial transactions. Performance against those service levels is monitored by the Operations Committee on a quarterly basis.

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The Trustees have a service level agreement in place with the Fund's administrator covering:

- Provision of retirement pack and quotation of benefits within 10 working days;
- Payments of benefits are made within 5 working days;
- Provision of transfer value quotation within 10 working days;
- Payment of transfer value within 3 working days;
- Provision of leaver option pack within 10 working days;
- Response to members enquiries within 10 working days;
- Provision of statements upon request within 10 working days; and
- Processing of investment switches within 5 working days.

The Scheme's administrator, Barnett Waddingham, aims to ensure that 95% of all these processes are completed within these service levels.

The Trustees understand that the administrator monitors its performance and reports these via the quarterly administration reports, and at meetings with the Pensions Governance Officer (monthly call and quarterly meeting). Barnett Waddingham also maintains accreditation with the Pensions Administration Standards Association ("PASA") which recognises high quality administration services, and maintains ISO certification for information security (ISO27001), and Quality Management (ISO9001).

5. Value for Members

The mandatory assessment of value for members relates to those costs incurred by members, and in respect of investments where members contribute a proportion of the costs.

5.1 The Money Purchase Underpin

In respect of the MPU, members receive the greater of their Post 1997 defined benefit or a benefit based upon the value of their MPU. The return applied to the MPU is based upon the Fund's return gross of fees (with the exception of 2% invested in a pooled fund, where the return is net of the manager's fees). We consider this approach to be consistent with providing good value for members.

5.2 AVC arrangements

In respect of AVCs, members only bear the costs associated with their investments, not administration costs related to the record keeping of their entitlement or payment of their benefits.

As such, we consider that the key test for value for members should relate solely to providing suitable investment options at a reasonable cost, enabling members to acquire additional pension benefits and to meet their target outcomes.

We use three criteria for assessing overall value for members:

- Suitability of funds available;
- Costs associated with investing in the funds available; and
- Performance of the funds offered.

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Our assessment is that, overall, the funds offered provide above average value based on a combination of these measures.

The table on the next page sets out the Trustee's assessment against each of the agreed criteria:

Value category/ feature	Rating	Metric	Comments
Suitability of investment options	Average	Qualitative assessment based upon member profile and use of funds.	The range of funds is predominantly passively managed, with a number of members also invested in With-Profits funds, for historic reasons. The range of funds and the lifestyle arrangements have recently been reviewed and amended to reflect the expected target outcomes for members based upon the experience of the Fund. We consider the range of options appropriate and sufficiently wide to meet members' needs.
Charges for investment options	Unitised: Above average With profits: average	Qualitative assessment relative to the AVC market-place.	We believe that BlackRock's charges are competitive for a Fund of this size. Charges for the With-Profits funds are less transparent, but are considered in the wider context of returns and underlying guarantees underpinning them.
Investment performance	Average	Unitised funds: comparison against benchmarks over 3 months, 12 months and 3 years With-Profits: review of annual bonus	We monitor and review the performance of the unitised funds. All funds have tracked their respective benchmarks within an acceptable range. The Equitable Life With-Profits fund is invested on a conservative basis, reflecting the inherent constraints of the underlying guarantees, and primarily invested in fixed interest securities. The bonus declaration policy reflects this.
Overall VfM Rating	Above average		We consider the fund options to be suitable and delivering in line with expectation. We also consider the costs associated with the unitised arrangements to be competitive.

AVCs invested in the With-Profits funds are increased by any bonuses declared by the providers. Any bonuses added by the providers during the period reviewed in this Statement will not necessarily reflect the return on the With-Profits funds' underlying investments in the same period for a number of reasons including:

- The costs of investment management, investment transactions and administration;

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- The allocation of part of the With-Profits Fund's assets to maintain the required level of Regulatory Capital;
- The allocation of part of any investment gains to maintain the With-Profits Fund's reserves for "smoothing" bonuses;
- The allocation from the With-Profits Fund's reserves when the value of assets fall to maintain the Fund's guarantees; and
- The bonus setting process which smooths investment returns and sets bonus rates common to groups of policyholders.

As a result, it is not possible to accurately determine member-borne charges and hence the value for members invested in the With-Profits funds. Nevertheless, based on research conducted by our investment consultants, we believe that the charges for the Equitable Life With-Profits Fund are not unreasonable, especially where advantage is taken of the current 35% financial distribution.

6. Trustee Knowledge and Understanding

We continually review our training needs and skills in order to ensure effective decision-making in respect of the Fund's MPU and AVCs. Where appropriate, the Trustee and the Investment Committee take independent expert advice.

The Investment Committee received the following relevant training during the last year:

Date	Topic	Aim/Benefit to members	Trainer
	Quarterly market update	<p>The Investment Committee receive quarterly updates on investment markets.</p> <p>Members know that the Investment Committee is up to speed with the latest developments in investment markets.</p>	Hymans Robertson
	Quarterly regulatory updates	<p>The Trustee Directors receive regular updates on changes to regulation relating to DB, DC and AVC arrangements.</p> <p>Members know that the Trustee Directors are up to speed with industry and regulatory developments.</p>	Hymans Robertson

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

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The Trustee Directors review the effectiveness of their advisers on an ongoing basis and also periodically review the appointment of their advisers. All adviser contracts were reviewed by the Trustee Directors as part of the GDPR process in 2018 and were considered to meet the Trustee Directors' requirements for quality and value for money.

We are satisfied that the Trustee Directors have:

- a working knowledge of the trust deed and rules, the current SIP and the Trustee's current policies;
- sufficient knowledge and understanding of the law relating to pensions and trusts and the relevant principles relating to the funding and investment of occupational schemes; and
- combined knowledge and understanding, together with access to suitable advice, to enable them to properly exercise their functions

We are also satisfied that during the period covered by this Statement we have taken effective steps to maintain and develop our knowledge and understanding.

7. Action Plan

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

- Assessed fund fees, suitability and performance of the AVC funds.
- Considered the suitability of the lifestyle strategies.
- Concluded that the range of AVC funds remain appropriate for a majority of members.

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

- Inform all members of the planned sale of Equitable Life to Utmost Life and the expected implications this will have on members invested with Equitable Life.
- Conduct a review of the current arrangements and ensure continued suitability.

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Appendix 1

Tables of funds and charges

Core lifestyle arrangements

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

Fund	ISIN *	Charges **		Underlying Fund
		% p.a. of the amount invested	£ p.a. per £1,000 invested	
Aegon BLK Aquila Life 50:50 Global Equity Class S3	GB00BFK3HG89	0.16	1.60	BlackRock Aquila Life 50:50 Global Equity Fund
Aegon BlackRock Market Advantage Class S3	GB00BFK3KL46	0.28	2.80	BlackRock ALMA fund
Aegon BlackRock Cash Class S4	GB00BFK3K692	0.125	1.25	BlackRock Cash Fund

Source: Aegon

Self-select funds outside the core lifestyle arrangement

Fund	ISIN *	Charges **		Underlying Fund
		% p.a. of the amount invested	£ p.a. per £1,000 invested	
Aegon BlackRock Consensus Index Class S3	GB00BFK3KC54	0.17	1.70	BlackRock Consensus fund
Aegon BLK Aquila Life Ov 5 Yr UK I/L Gilt Class S3	GB00BFK3JP11	0.11	1.10	BlackRock Aquila Life over 5 year I/L gilt index fund
Aegon BLK Aquila Life Over 15 Yr UK Gilt Class S3	GB00BFK3JP11	0.11	1.10	BlackRock Aquila Life over 15 year gilt index fund
Aegon BLK Aquila Life UK Equity Class S4	GB00BFK3J397	0.11	1.10	Blackrock Aquila Life Equity Index Fund
Aegon BLK Aquila Life World ExUK Eq Idx Class S7	GB00BFK3JD98	0.21	2.10	Blackrock Aquila Life World (ex-UK) Equity Index Fund

Source: Aegon

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Appendix 2

Tables illustrating the impact of charges and costs

The following tables show the potential impact over time of the charges borne by a typical member on projected fund values up to retirement in today's money for a selection of funds. Please note the Fund is closed to contributions.

Core Lifestyle arrangement

The table below shows how the DC pot for a 55 year-old member might grow over time up to their retirement allowing for investment returns and contributions, including what effect the charges for these investment options could have:

Years to retirement	0% Contribution (Deferred members)	
	Before costs and charges £	After costs and charges are taken £
1	8,856	8,656
3	8,856	8,691
5	8,603	8,488
10	8,000	8,000

Source: Hymans Robertson

Most popular AVC fund

The table below shows how the AVC pot for a 55 year-old member might grow over time up to their retirement allowing for investment returns and contributions, including what effect the charges for these investment options could have:

Years to retirement	Consensus Fund	
	Before costs and charges £	After costs and charges £
1	9,117	8,984
3	8,856	8,756
5	8,603	8,533
10	8,000	8,000

Source: Hymans Robertson

The assumptions used in these calculations were:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

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- Inflation is assumed to be 2.5% p.a.
- For both projections, the starting pot size is assumed to be £8,000 at age 55, as this represents a typical member of the scheme.
- The below table shows the assumed investment returns and fees used in the projections above:

Fund	Return % p.a.	Fees % p.a.
Aegon BlackRock (50:50) Global Equity Index Fund	4.5	0.16
Aegon BlackRock ALMA fund	4.0	0.28
Aegon BlackRock Cash Fund	1.0	0.125
Aegon BlackRock Consensus Fund	4.0	0.17

Please note that these illustrated values:

- In the absence of transaction cost information (detailed in "Missing Information"), these illustrations only take into account the funds' Total Expense Ratios provided by BlackRock – the projected values could be lower if it was possible to also take into account transaction costs at this time;
- Are estimates using assumed rates of future investment returns and inflation;
- Are not guaranteed;
- Depends upon how far members in the core lifestyle option are from retirement as the funds used change over time;
- May not prove to be a good indication of how your own savings might grow;
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.