

DERWENT LONDON

Derwent London Pension Scheme

Chair's Governance Statement for the year ended 31 December 2018

Pension Scheme Registration Number: 100757522

In accordance with The Pension Regulator's Guidelines, the Chair's statement for the 12 months ending 31 December 2018 is attached. If you have any questions, please contact the Trustees of the Derwent London Pension Scheme.

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Chair's DC Governance Statement, covering the 12 months to 31 December 2018

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the Derwent London Pension Scheme (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustees are required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the "default arrangement" and other funds members can select);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

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

2. Default arrangement

The default investment arrangement (the "default arrangement") is designed for members who join the Scheme and do not choose an investment option. The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default.

When deciding on the investment strategy, the Trustees recognise that the majority of members do not take active investment decisions and instead invest in the default option. After taking advice, the Trustees decided to make the default option a lifestyle strategy, whereby members' assets are automatically moved between different investment funds as they approach their retirement date.

Details of the objectives and the Trustees' policies in regards to the default arrangement are set out in the Scheme's Statement of Investment Principles ("SIP").

The Trustees' primary objectives for the Scheme are to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the Scheme and the variety of ways that members can draw their benefits in retirement; and

- a default investment option that the Trustees believe to be reasonable for those members that do not make their own investment decisions. The objective of the default option is to generate returns significantly above inflation whilst members are some distance from retirement, but then to switch automatically and gradually to lower risk investments considered to be appropriate for members who wish to take drawdown at retirement.

The default arrangement was not reviewed during the period covered by this statement. It was last reviewed in 2015 and the Trustees regularly monitor the performance of the default arrangement. The Scheme will be moving to a Master Trust arrangement in 2019, so an investment review was not considered necessary for the Scheme Year.

The Trustees are satisfied that the default remains appropriate.

3. Requirements for processing core financial transactions

Processing core financial transactions (such as the investment of contributions, processing transfers in and out of the Scheme, and payments to members/beneficiaries) is carried out by the administrators of the Scheme, Standard Life.

The Scheme does not have a service level agreement ("SLA") in place with the administrator, but falls within Standard Life's catch-all uniformed service. The uniformed service has a target to complete 90% of all non-automated demand recorded and completed through their workflow management system within 10 working days.

- There are no scheme specific or generic results on accuracy of processing provided to the Trustees. However Standard Life has confirmed that its robust control framework, quality process and sampling, low levels of complaints and automation give comfort on accuracy.
- During the year, no material errors were identified with Standard Life's administration. Any issues that arose over the period were satisfactorily resolved, and in a timely manner.

The Trustees receive quarterly reports about the administrator's performance and compliance with its targets. Using information provided by the administrators, the Trustees are satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses (such as custody costs, but excluding transaction costs); this is also known as

the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The Trustees are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds.

The charges and transaction costs have been supplied by the Scheme's provider, Standard Life, and investment managers. When preparing this section of the Statement the Trustees have taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustees have shown any negative figure as zero.

4.1. Default arrangement

The default arrangement targets drawdown at retirement. The default arrangement has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which fund they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the table below.

Default arrangement charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (%pa)
10 years to retirement	0.64%	0.08
5 years to retirement	0.69%	0.04
At retirement	0.69%	0.01

4.2. Self-select options

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the default arrangement are shown in bold.

Self-select fund charges and transaction costs

Manager – Fund name	TER (% pa)	Transaction costs (%pa)
Standard Life Global Equity 50:50	0.46	0.14
Standard Life Annuity Purchase	0.46	0.01
Standard Life Deposit and Treasury	0.46	0.00
Standard Life Global Absolute Return Strategies (“GARS”)	0.96	0.06
BlackRock Market Advantage Pension Fund	0.74	0.00
Standard Life Asia Pacific ex Japan Equity	0.60	0.06
Standard Life Ethical	0.46	0.11
Standard Life European Equity	0.47	0.05
Standard Life Far East Equity	0.55	0.06
Standard Life Global Equity 50:50 Tracker	0.46	0.03
Standard Life Index Linked Bond	0.46	0.00
Standard Life International Equity	0.48	0.05
Standard Life Managed	0.48	0.04
Standard Life Money Market	0.46	0.00
Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	0.47	0.00
Standard Life SLI Absolute Return Global Bond Strategies Pension Fund	0.97	0.00
Standard Life Multi Asset Managed (20-60% Shares)	0.47	0.01
Standard Life Property	0.48	0.17
Standard Life Stock Exchange	0.48	0.06
Standard Life UK Equity	0.46	0.11
Standard Life Overseas Equity	0.46	0.13

4.3. Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- 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 (ie the TER) and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by Standard Life, subject to a floor of zero (ie the illustration does not assume a negative cost over the long term).
- The illustration is shown for the default option (the Drawdown Lifestyle) since this is the arrangement with the most members invested in it, as well

as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:

- the fund with the highest before costs expected return – this is Standard Life Global Equity 50:50 Pension Fund
- the fund with the lowest before costs expected return – this is Standard Life Money Market
- the fund with highest annual member borne costs – this is Standard Life Global Absolute Return Strategies
- the fund with lowest annual member borne costs – this is the Standard Life Deposit and Treasury

Projected pension pot in today's money

Years Invested	Default option		Standard Life Global Equity 50:50 Pension Fund (highest return)		Standard Life Money Market (lowest return)		Standard Life Global Absolute Return Strategies (highest cost)		Standard Life Deposit and Treasury (lowest cost)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£15,600	£15,500	£15,600	£15,600	£15,200	£15,100	£15,400	£15,300	£15,200	£15,100
3	£27,100	£26,700	£27,400	£27,100	£25,500	£25,200	£26,600	£26,000	£25,500	£25,200
5	£39,100	£38,300	£39,900	£39,100	£35,700	£35,200	£38,000	£36,800	£35,700	£35,000
10	£72,000	£69,000	£74,500	£71,900	£60,700	£59,100	£68,200	£64,300	£60,700	£58,700
15	£109,000	£102,400	£114,700	£108,800	£85,100	£82,000	£100,700	£92,400	£85,100	£81,000
20	£150,600	£138,800	£161,200	£150,400	£109,000	£103,700	£135,800	£121,200	£109,000	£102,200
25	£197,600	£178,300	£215,200	£197,200	£132,200	£124,500	£173,500	£150,700	£132,200	£122,200
30	£250,500	£221,300	£277,800	£249,900	£154,800	£144,200	£214,200	£180,900	£154,800	£141,200
35	£305,600	£264,100	£350,300	£309,300	£176,900	£163,100	£258,000	£211,900	£176,900	£159,100
40	£354,300	£299,600	£434,400	£376,100	£198,500	£181,000	£305,200	£243,600	£198,500	£176,100

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.0%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line within inflation to allow for prudence in the projected values.
- The starting pot size used is £10,000 - this is broadly representative of the pot size of a typical young member of the Scheme.
- The starting salary is assumed to be £35,000 - this is Broadly representative of the salary of a young member of the Scheme.
- Total contributions (employee plus employer) are assumed to be 15.0% of salary per year.
- The projected annual returns used are as follows:
 - Default option: 2.4% above inflation for the initial years, gradually reducing to a return of 1.0% above inflation at the ending point of the lifestyle.

- Standard Life Global Equity 50:50 Pension Fund: 3.0% above inflation
- Standard Life Money Market: 0.5% below inflation
- Standard Life Global Absolute Return Strategies: 1.5% above inflation
- Standard Life Deposit and Treasury: 0.5% below inflation
- No allowance for active management has been made.

5. Value for members assessment

The Trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members, compared to other options available in the market. There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The general policy of the Trustees in relation to value for member considerations is set out below.

It is the Trustees' policy to review all member borne charges (including transactions costs where these are available) on a regular basis, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The Trustees note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has been taken in to account. The Trustees' investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustees also consider the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can select have been broadly consistent with their stated investment objectives, although this has not been universal and so the Trustees keep the investment managers under review. The Trustees also consider the other benefits members receive from the Scheme, which include: the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes and the extent to which the administrator met and exceeded its target service standards for the Scheme year; the quality of communications delivered to members; and the quality of support services and Scheme Governance.

Overall, the Trustees believe that members of the Scheme are receiving reasonable value for money.

6. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustees have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware

of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material.

All the Trustees are familiar with the Scheme governing documentation, including the Trust Deed & Rules and SIP. In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments.

Taking in to account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

_____ Date: _____

Signed by the Chair of Trustees of the Derwent London Pension Scheme