

# AAK Staff Pension Plan

## Chair's Statement for the Period 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018

### **ANNUAL GOVERNANCE STATEMENT BY THE CHAIR OF TRUSTEE**

#### **1.0 Introduction**

1.1 Governance rules have applied to defined contribution pension arrangements like the AAK Staff Pension Plan (the "Plan") since 6 April 2015. These were designed to help members achieve a good outcome from their pension savings.

1.2 As Chair of the Trustees, I am obliged provide you with a yearly statement which explains what steps have been taken by the Trustees, with help from our professional advisers, to meet the governance standards. The law sets out what information must be included in my statement.

1.3 The Trustees are committed to having high governance standards. We have a number of measures in place, use the services of experts and meet regularly to monitor the controls and processes in connection with the Scheme's investments and administration.

1.4 We welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run effectively. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please contact me to discuss further.

1.5 The Plan operates under Trust Deed and Rules dated 1<sup>st</sup> February 2001. A copy is available from AAK by contacting Damian Taylor at the Hull office.

1.6 AAK and the Trustees have employed the services of LEBC Group Ltd (LEBC) as Plan advisers to assist with the analysis and review.

#### **2.0 What do you need to do next?**

This statement is for noting. You do not need to take any action.

#### **3.0 Plan Summary**

3.1 The Scheme was originally set up by Aarhus United UK Limited. When Aarhus and Karlshamns merged in 2006 it was renamed the AAK Staff Pension Plan. Subsequently it was decided to discontinue the Plan and operate a Group Personal Pension Plan (GPPP) which

serves current employees and meets the requirements of the current workplace pension regulations.

3.2 The membership and investment details for the period 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018 have been analysed by LEBC on behalf of the Trustees. The Trustees are satisfied this Scheme is appropriate and fit for purpose and welcome the formal governance and reporting process.

3.3 There are currently 5 members, all of whom are former employees of AAK. No contributions have been paid to the Plan since 2006.

3.4 When the Group Personal Pension Plan was set up in 2006, members who were active AAK employees were given the option of transferring to the GPPP or to a Trustee Buy Out Bond and financial advice was offered to members. Both options were with Friends Life and on the same charging and investment terms. Some members did not elect to transfer, so remain in the Plan.

3.5 Members receive annual statements and are made aware of the options to:-

- I. Switch to one or more of a range of other funds which are available within the scheme, typically at no extra cost.
- II. Transfer to another pension plan.

#### **4.0 Default investment arrangement**

4.1 The default investment arrangement is provided for members who join the Plan and do not choose an investment option for their contributions. The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Plan's default arrangement.

4.2 The Trustees are expected to:

- I. review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every 3 years; and
- II. take into account the needs of the Plan membership when designing the default arrangement.

4.3 In light of the requirement above, the Trustees review the investment objectives and the performance of the default arrangement once a year and on the advice of LEBC, the Plan's advisers.

4.4 We have reviewed the default investment arrangement. In carrying out this review we considered a number of factors including: member needs, attitudes to risk, and retirement expectations to assess what an appropriate default arrangement will be for the Plan. In conjunction with our advisers, we have measured and analysed the performance and volatility of the default investment choice. We have also considered a variety of different investment strategies available before deciding on what changes may be appropriate at this time.

4.5 The default investment arrangement since outset has been the Clerical Medical Lifestyle Balanced. The default fund is split into 2 stages: the growth stage when 10 years or more from normal retirement age and the pre-retirement stage within 10 years of retirement where members are gradually automatically moved into less volatile funds and cash as selected retirement age approaches. During the growth stage 75% is invested in the Clerical Medical Balanced Fund and 25% in the Clerical Medical UK Growth Fund. The growth stage is designed for investors looking for a medium to long-term investment with above inflation growth but are prepared to accept some volatility and that the fund may go down as well as up. Some members are not invested in the default investment arrangement and are instead invested in the Clerical Medical Lifestyle UK Growth, this is a slightly higher investment risk whereby in the growth stage 100% is invested in the Clerical Medical UK Growth Fund.

4.6 The default investment arrangement is still is considered by AAK and the Trustees to be a suitable investment fund with good prospects for growth and reduces volatility on the approach to retirement when combined with the Lifestyle Programme.

4.7 Please refer to the Clerical Medical website for investments regarding all Clerical medical funds ([www.clericalmedical.co.uk](http://www.clericalmedical.co.uk)).

4.8 The Trustees consider the default arrangement to be consistent with the original objectives and appropriate for the remaining Plan members.

4.9 The Trustees are aware that circumstances change over time, so have ensured that members are kept informed of their options when issuing annual member statements.

4.10 Following analysis of the default investment arrangement the Trustees, with the help of the Plan advisers, concluded that the default investment arrangement did not require amendment at this stage for the following reasons:

- I. The scheme is closed to new entrants and to contributions.
- II. Members are aware that they can switch investments funds or transfer benefits.
- III. The default funds combined with the Lifestyle Programme give good potential for growth and are relatively secure.

4.11 Meanwhile, the Trustees are monitoring the use of the default investment arrangement and the choices being made by members when benefits come into payment. This will help to inform us about changes which are appropriate in future.

4.12 It has not been felt necessary to review the scheme's investment principles.

4.13 The following table shows the cumulative performance since 2014 of the underlying funds of the default investment arrangement, the Clerical Medical Balanced Fund, Clerical Medical UK Growth Fund and Clerical Medical Gilt and Fixed Interest Fund. Performance is shown alongside each funds relative benchmark performance. Due to delay in obtaining

information from Clerical Medical required to produce this statement and in light of market volatility in 2019 since the end of the previous Scheme year, the fund performance figures are as at the date of the final draft of this statement being produced rather than 2018 year-end.

### Cumulative performance %

Fund Name	1 year	3 years	5 years
Clerical Medical UK Growth Fund	-4.0	+26.1	+29.4
Benchmark - UK All Companies	-4.3	+29.4	+29.6
Clerical Medical Balanced Fund	-1.4	+27.9	+34.6
Benchmark - Mixed Investment 40%-85% Shares	+1.5	+28.0	+36.5
Clerical Medical Gilt and Fixed Interest Fund	+3.4	+9.1	+19.7
Benchmark - Sterling Fixed Interest	+5.1	+16.1	+30.3

\*The performance figures are as at 22<sup>nd</sup> May 2019 rather than the end of the scheme year in order to provide more up to date figures. Source: FE TrustNet May 2019

## 5.0 Charges and transaction costs paid by members

5.1 The charges applied to the default arrangement during the year were an annual management charge of 0.78% of fund value. This is the only charge borne by members and there are no other transactions costs. This applies to all internal investment funds offered by the scheme. Externally managed funds may have higher charges. As at the end of the period, no members had selected external funds or any other funds with charges above the base annual management charge stated above.

5.2 There are no other transaction costs or policy fees.

5.3 The Trustees have taken into account statutory requirements in respect of charges. The Trustees acknowledge that the default fund charge is above the charge cap of 0.75% for workplace pension schemes, however as this scheme is closed and not an active workplace scheme the charges remains in line with statutory guidance.

## **6.0 Good value for members**

6.1 The Trustees appreciate that occupational defined contribution charges in the market can be lower than the annual management charge levied but also recognise the more complex regulatory structure of this type of arrangement compared to group personal pension arrangements, the Plan is closed to new contributions and has a small number of members.

6.2 As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of return they have delivered to members. We have also considered how the charges and transaction costs borne by members (the costs of membership) compare against the services and benefits provided by the Plan (the benefits of membership). The benefits of membership include (amongst other things): 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 Clerical Medical as pension provider and investment managers met and exceeded its service level standards for the Plan year; the quality of communications delivered to members; and the quality of support services and Plan governance.

6.3 We have assessed members' investment returns and overall fund performance to ensure that the transaction costs borne by the members (e.g. costs associated with investment trading) are reasonable for each fund we offer under the Plan and the outcomes expected from investment. We considered that higher transaction costs in specialist funds are usual and in the case of the funds we offer, justified.

## **7.0 Core financial transactions**

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

- I. transferring assets related to members into or out of the Plan;
- II. transferring assets between different investments within the Plan; and
- III. making payments from the Plan to or on behalf of members.

7.2 We must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the Scheme adviser. Our Scheme administration and advice is delivered by LEBC. The Scheme adviser regularly reports to the Trustees which allows us to assess how quickly and effectively the core Scheme financial transactions are completed. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

7.3 The Trustees are confident that the processes and controls in place with the Plan Administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

## **8.0 Transaction Requirements**

8.1 There were no refunds, retirements, deaths or any other transactions during the period.

**9.0 Trustee knowledge and understanding**

9.1 The law requires the Trustees to possess, or have access to, sufficient knowledge and understanding to run the Plan effectively. We take our training and development responsibilities seriously and work with our professional advisers to fill in any gaps.

**10.0 This Statement**

10.1 This statement has been produced based on the information supplied by Clerical Medical and our advisers and taking into account the current situation at the date the statement was produced.

**11.0 Contact details for member queries**

**Signed for and on behalf of The Trustees of the AAK Staff Pension Plan**

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**XXXXXXXX, Chair of the Trustees**

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**Date**