

# AarhusKarlshamns Ltd Sterling Pension & Life Assurance Scheme

## 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 TRUSTEES**

#### **1.0 Introduction**

1.1 Governance rules have applied to defined contribution pension arrangements like the AarhusKarlshamns Ltd Sterling Pension & Life Assurance Scheme (the "Scheme") since 6 April 2015. These were designed to help members achieve a good outcome from their pension savings.

1.2 The Trustee of the Scheme is AarhusKarlshamns Ltd ("AAK"), so the Directors make decisions and responsibilities as Trustees.

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

1.4 The Trustee is committed to having high governance standards, use the services of experts and meet regularly to monitor the controls and processes in connection with the Scheme's investments and administration.

1.5 We welcome this opportunity to explain what the Trustee does 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.

1.6 The Scheme operates under Trust Deed and Rules dated 1<sup>st</sup> March 1992. A copy is available from AAK by contacting Damian Taylor at the Hull office.

1.7 AAK has employed the services of LEBC Group Ltd ("LEBC") as Scheme advisers to assist with analysis and review.

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

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

### **3.0 Scheme Summary**

3.1 The scheme was originally set up by Karlshamns with Commercial Union, now Aviva. When Aarhus and Karlshamns merged in 2006 it was closed to new members and contributions were discontinued. From 2006 contributions have been paid to a replacement 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 and discussed by 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 41 paid-up members. Most members are former employees of AAK but some are current employees who are members of the GPPP. No contributions have been paid into the Scheme since 2006.

3.4 Members receive annual statements and have been made aware of the options:

- I. Transfer to another pension scheme (there are no other funds available within this scheme)

3.5 Following the closure of the scheme to new members, members were given choices:

- I. Remain in the Deposit Admin Fund
- II. Transfer to another pension plan, e.g. the AAK GPPP

3.6 These choices were influenced by potentially higher tax-free cash within the scheme.

### **4.0 Default investment arrangement**

4.1 The default investment arrangement is provided for members. The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

4.2 The Trustee is 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 Scheme membership when designing the default arrangement.

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

4.4 We have reviewed the default investment arrangement. In carrying out this review we considered a number of factors including: members needs, attitudes to risk, and retirement expectations to assess what an appropriate default arrangement will be for the Scheme. 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 All member funds are invested in the Aviva Deposit Admin Fund which has bonuses, so is similar to a with-profits fund, with the annual regular bonus paid each 31<sup>st</sup> December. Regular bonuses are guaranteed and once added cannot be taken away. The declared regular bonus rate as at 31<sup>st</sup> December 2018 was 2.75%. A final bonus may be added on retirement or transfer. This will represent any additional investment return over and above the regular bonuses already added, although a final bonus is not guaranteed and may be changed at any time. Another similarity with a with-profits fund is that a 'market value adjustment' may be applied on transfer out, therefore this may result in a reduced fund should a member proceed with a transfer out. The fund is designed for investors looking for a medium to long term investment but with a good level of security.

4.6 The default investment arrangement is still is considered by AAK and the Trustees to be a suitable investment fund with reasonable prospects for growth with a low level of volatility.

4.7 The Trustee considers the default approach to be consistent with the original objectives and appropriate for the Scheme membership profile.

4.8 The Trustee is aware that circumstances change over time, so has ensured that members are kept informed of their options when issuing annual member statements.

4.9 The default investment arrangement is the only investment fund available for this scheme.

4.10 Following analysis of the default investment arrangement the Trustee, with the help of the Scheme advisers, concluded that the default investment arrangement could not be changed as this particular type of policy does not offer alternative funds. However, the default fund is secure and has some growth potential.

4.11 Meanwhile, the Trustee is 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.

## **5.0 Charges and transaction costs paid by members**

5.1 There is a monthly member charge of £2.05 (£24.60 per annum).

5.2 There are no other transaction costs or management charges.

## **6.0 Good value for members**

6.1 The Trustee appreciates 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 Scheme 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 Scheme (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 efficiency of administration processes and the extent to which Aviva as pension provider and investment managers met and exceeded its service level standards for the Scheme year; the quality of communications delivered to members; and the quality of support services and Scheme 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 the fund we offer under the Scheme and the outcomes expected from investment. We considered, in particular, that higher transaction costs in specialist funds are usual and in the case of the funds we offer, justified.

6.4 Based on our assessment, we concluded that the Scheme represents reasonable value for members.

## **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 Scheme;
- II. transferring assets between different investments within the Scheme; and
- III. making payments from the Scheme 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 Trustee is confident that the processes and controls in place with the Scheme 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 payments made out of the Scheme in respect of 1 member. The payment out was made within an appropriate timeframe.

## **9.0 Trustee knowledge and understanding**

9.1 The law requires the Directors of the Trustee to possess, or have access to, sufficient knowledge and understanding to run the Scheme 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 Aviva 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 AarhusKarlshamns Ltd Sterling Pension & Life Assurance Scheme**

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**XXXXXXXX, Chair of the Trustees**

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**Date**