

# Chair's DC Governance Statement, covering 1 April 2019 to 31 March 2020

## 1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the NMR Overseas Pension Fund – Defined Contribution Section (the "Fund") is required to produce a yearly statement (which is signed by the Chair of the Trustee) 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 or have assets in, such as 'legacy' funds);
- 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.

## 2. Default arrangements

The Fund is not used as a Qualifying Scheme for automatic enrolment purposes.

The Trustee has made available a range of investment options for members. Members who join the Fund and who do not choose an investment option are placed into the default investment arrangement, (the "Default"). If members join with more than 10 years until their Target Retirement Age ("TRA") they are defaulted into growth phase of the Lifestyle Strategy and invested 100% in the Schroder Diversified Growth Fund. If members are less than 10 years from TRA, they will be defaulted into the Lifestyle Strategy, with the asset allocation depending on the number of years to TRA. At TRA members are invested in a mix of Corporate Bonds, Fixed Interest Gilts, Index Linked Gilts and Cash.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the default.

The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. To help manage the volatility that members' assets experience in the growth phase of the default lifestyle strategy, the Trustee has decided that it will comprise a 100% allocation to "diversified growth assets, which over the long term are expected to generate returns materially above inflation, but with lower volatility than equities.

Details of the objectives and the Trustee's policies regarding the Default can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Fund's SIP covering the default arrangement is attached to this document.

The Trustee's primary objective of the Fund, as stated in the SIP, is to provide members with access to:

- an appropriate range of investment options, reflecting the membership profile of the Fund and recognising the rules around how members must access their pots in retirement; and
- a default investment option that the Trustee believes to be reasonable for those members that do not wish to make their own investment decisions.

The objective of the Default 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 as members near retirement.

The Default was not reviewed during the period covered by this Statement. The last review was completed on 7 June 2017. The Trustee regularly monitors the performance of the Default and will formally review both this and the strategy at least every three years (the next review is intended to take place in late 2020 or immediately following any significant change in investment policy or the Fund's member profile).

The Trustee also reviews the performance of the Default against its aims, objectives and policies on a quarterly basis. This review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations.

The Trustee is satisfied that the Default, which targets annuity purchase as its flexible retirement option, remains appropriate, given the Fund's risk and membership profile.

### 3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the Fund's administrators, Capita. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Fund, transfers of assets between different investments within the Fund, and payments to members/beneficiaries.

The Trustee has received assurance from Capita that there are adequate internal controls to ensure that core financial transactions for the Fund are processed promptly and accurately. The Trustee obtains and reviews the annual internal control reports (AAF01/06) from Capita and seeks full explanations for all exceptions identified. The Trustee is able to conclude that Capita has adequate internal controls to ensure that core financial transactions relating to the Fund are processed promptly and accurately.

The Fund has a service level agreement ("SLA") in place with Capita which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

Any mistakes or delays are investigated thoroughly by Capita and reported to the Trustee and action is taken to put things right as quickly as possible. The Trustee receives and reviews regular reports about Capita's performance to help it monitor whether service levels are being met. The reporting includes activity reports which allows the Trustee to verify whether specified transactions (e.g. retirement quotations, transfer quotations) are performed accurately within the agreed target turnaround performance standards for different activities specified under the SLA. The Trustee also meets with Capita on at least an annual basis and the Fund's Pension Team has regular monthly calls with Capita. Furthermore, Capita conducts a data review exercise on an annual basis.

Capita also has in place a number of controls, which are designed to aid prompt and accurate processing of core financial transactions relating to the Fund. Capita uses an internal workflow system to help meet SLAs. For example, this system:

- flags any processes that are falling behind the agreed targets. Daily reports are issued to all levels of management within Capita to help monitor administration standards.

- monitors core financial transactions and any internal or external audit work.

To help the Trustee monitor whether service levels are being met, the Trustee receives quarterly reports about Capita's performance and compliance with the SLA. Any issues identified by the Trustee as part of its review processes would be raised immediately, and steps would be taken to resolve these.

Based on its review processes, the Trustee is satisfied that over the period covered by this Statement:

- Capita was operating appropriate procedures, checks and controls, and completed an average of 92% of all tasks within SLA across the Fund Year;
- there have been no administration issues in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Fund year.

### 4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members during the period covered by this Statement, which are annual fund management charges plus 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 stated charges include investment costs, but exclude any other costs, e.g. administration since these are paid by NM Rothschild & Sons Ltd (the "Company"), not met by the members.

The Trustee is also required to disclose transaction cost figures separately. In the context of this Statement, the transaction costs shown are those incurred when the Fund'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 transaction costs are borne by members.

The charges and transaction costs have been supplied by Legal and General Investment Management ("LGIM") and Schroders Investment Management ("Schroders") who are the Fund's investment managers. When preparing this section of the Statement the Trustee has 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 Trustee has shown any negative figure as zero.

## Default arrangements

The Lifestyle Strategy is the default investment arrangement. It has been set up using a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their TRA. This means that the level of charges and transaction costs will vary depending on how close members are to their TRA and in which fund they are invested.

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

### Default charges and transaction costs

Years to target retirement date	TER (% pa)	Transaction costs (% pa)
10 or more years to retirement	0.75	0.57
5 years to retirement	0.44	0.32
At retirement	0.13	0.05

## Self-select options

In addition to the Default, members also have the option to invest in seven self-select funds, known as the Freestyle Strategy.

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)
<b>Schroders Diversified Growth Fund</b>	<b>0.75</b>	<b>0.57</b>
L&G World (ex-UK) Equity Index Fund	0.23	0.00
L&G UK Equity Index Fund	0.13	0.00
<b>L&amp;G All Stocks Corporate Bond Index Fund</b>	<b>0.15</b>	<b>0.00</b>
<b>L&amp;G Over 15 Year Gilt Index Fund</b>	<b>0.10</b>	<b>0.05</b>
<b>L&amp;G Over 5 Year Index Linked Gilt Index Fund</b>	<b>0.10</b>	<b>0.12</b>

Manager – Fund name	TER (% pa)	Transaction costs (% pa)
<b>L&amp;G Cash Fund</b>	<b>0.13</b>	<b>0.00</b>

## Illustration of charges and transaction 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. In preparing this illustration, the Trustee has had regard to the statutory guidance.

- The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne charges (ie the TER) and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the Fund Year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for the Default (the default investment arrangement) since this is the arrangement in which most members are invested, as well as four funds from the Fund'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 the L&G World (ex-UK) Equity Index Fund
  - the fund with the lowest before costs expected return – this is the L&G Cash Fund
  - the fund with highest annual member borne costs – this is the Schroders Diversified Growth Fund
  - the fund with lowest annual member borne costs – this is the L&G Over 15 Year Gilt Index Fund

## Projected pension pot in today's money

Years invested	Default option		L&G World (ex-UK) Equity Index Fund		L&G Cash Fund		Schroders Diversified Growth Fund		L&G Over 15 Year Gilt Index Fund	
	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
3	£1,100	£1,100	£1,100	£1,100	£1,000	£1,000	£1,100	£1,100	£1,000	£1,000
5	£1,200	£1,100	£1,300	£1,200	£900	£900	£1,200	£1,100	£1,000	£1,000
10	£1,400	£1,200	£1,600	£1,500	£900	£900	£1,400	£1,200	£900	£900
15	£1,600	£1,400	£2,000	£1,900	£800	£800	£1,600	£1,400	£900	£900
20	£1,900	£1,500	£2,500	£2,400	£800	£700	£1,900	£1,500	£900	£800
25	£2,200	£1,700	£3,100	£2,900	£700	£700	£2,200	£1,700	£800	£800
30	£2,500	£1,800	£3,900	£3,600	£700	£600	£2,500	£1,800	£800	£800
35	£2,800	£2,000	£4,900	£4,500	£600	£600	£2,900	£2,000	£800	£700
40	£2,800	£1,900	£6,100	£5,600	£600	£600	£3,400	£2,200	£700	£700

### 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. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Inflation is assumed to be 2.5%.
- The starting pot size used is £1,000. This is the approximate average (median) pot size for active members aged 25 years and younger (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The average salary and contribution rate is assumed to be zero, as the Fund is closed to active members.
- The projected annual returns used are as follows:
  - Default option: 3.1% above inflation for the initial years, gradually reducing to a return of 0.62% below inflation at the ending point of the lifestyle.
    - L&G World (ex-UK) Equity Index Fund: 4.6% above inflation
    - L&G Cash Fund: 1.3% below inflation
    - Schroders Diversified Growth Fund: 3.1% above inflation
    - L&G Over 15 Year Gilt Index Fund: 0.8% below inflation
  - No allowance for active management outperformance has been made.

## 6. Value for members assessment

The Trustee is required to assess the extent to which member-borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based Funds providing money purchase benefits).

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Fund. The date of the last review was 10 June 2020. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustee's assessment included a review of the performance of the Fund's investment funds (after all charges) in the context of their investment objectives. The returns on the majority of investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

In carrying out the assessment, the Trustee also considers the other benefits members receive from the Fund, which include:

- the oversight and governance of the Trustee, including ensuring the Fund is compliant with relevant legislation, and holding regular meetings to monitor the Fund and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services such as the Fund website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

The Trustee has worked with its DC advisor to carry out an assessment of the extent to which all key elements of the Fund represent value for members. This summary sets out the Trustee's assessment and the high-level rationale behind it.

1. Charges – the Company meets the majority of the costs of running the Fund. The costs borne by members are competitive, especially when considering the size of the Fund.
2. Administration – SLA standards averaged 92% for the year, which is below expectations. There were no member complaints received over the period.
3. Governance – the Trustee keeps itself informed of key regulatory requirements and is committed to running the Fund.
4. Communications – communications are easily accessible and members are provided with reasonable support in the lead up to retirement
5. Default investment arrangement – the default investment strategy targets annuity purchase at retirement, which is appropriate for the members of the Overseas Fund. Performance of the diversified growth fund which makes up entire growth phase for members has been poor compared to its target. The Trustee will continue to monitor the fund's performance and take action where necessary.
6. Self-select investment range – there is a clear and concise list of appropriate self-select funds covering the main asset classes a member would expect.

As detailed in the earlier section covering the processing of core financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

Overall, based on this value for members' assessment, the Trustee believes that members of the Fund received good value for the Fund Year ending 31 March 2020.

## 7. Trustee knowledge and understanding

The Fund's Trustee directors are required to maintain appropriate levels of knowledge and understanding to run the Fund effectively. 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 recognises the importance of good governance of its pension arrangements. It has established the Pension Governance and Audit Committee (PGAC) and the Pension Investment Sub-Committee (PISC) to ensure appropriate focus on these areas.

The Trustee has agreed terms of reference for the PGAC and the PISC. The PGAC is responsible for monitoring the operational aspects of the fund, as well as maintaining key governance documents such as its business plan, risk register and trustee training logs. The PISC is responsible for the investment strategy and allocations.

All the Trustee directors are familiar with and have access to copies of the Fund's governing documentation and documentation setting out the Trustee's policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustee refers to the Trust Deed and Rules when considering and deciding to make any changes to the Fund, and the SIP is formally reviewed annually and as part of making any change to the Fund's investments. Further, the Trustee believes it has sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension Funds to fulfil their duties.

Each Trustee director has responsibility for ensuring that they keep themselves up-to-date with relevant developments. The Trustee undertakes an annual assessment of training needs, which is overseen by the PGAC. The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material.

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

- Trustee responsibilities & key DC legislation
- Artificial Intelligence in DC
- How the Trustee can improve Value for Members
- Alternatives to annuities for Money Purchase pensions
- Sustainable Investment
- ESG Developments
- Investment in a Coronavirus world

Additionally, the Trustee receives quarterly updates on topical pension issues from their investment advisers.

All the Trustee directors are required to commit to completing the training, either at the relevant meetings or by personal study. The majority of the Trustees have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension Funds meet the minimum level of knowledge and understanding required by law), with the remaining Trustee directors having started the Toolkit, but not yet completed all of the modules. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Fund year.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. Additionally, the Fund has in place a structured induction process for new trustees. All new Trustees are encouraged to complete the Trustee Toolkit and must complete external training on 'duties and responsibilities' and 'funding and investment' within 6 months of appointment.

The Trustee also carries out an annual evaluation of the performance and effectiveness of the Trustee Board as a whole as measured against the objectives of the Fund's business plan.

Considering the knowledge and experience of the Trustee directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers (eg investment consultants, legal advisers), the Trustee believes it is well placed to exercise its functions as Trustee of the Fund properly and effectively.

\_\_\_\_\_ Date: \_\_\_\_\_

**Signed by the Chair of Trustee of the NMR Overseas Pension Fund**