

## **Hallmark (1998) Retirement Benefit Scheme (the 'Scheme')**

### **Defined Contribution Governance Statement**

The Trustee is required to prepare an annual statement regarding governance of Defined Contribution ('DC') funds within the Scheme.

This statement covers the period 1 January to 31 December 2018 and describes how the Trustee Directors (the 'Trustees') of the Scheme have met the statutory governance and charge requirements in relation to:

- Processing of core financial transactions,
- Charges and transaction costs paid by members
- Value for Members assessment, and
- Trustee knowledge and understanding.

As no contributions have been paid to the DC Section of the Scheme since the relevant Regulations took effect, the DC Section does not have a 'default investment strategy' as defined by the Regulations. The Trustees reviewed the DC Section's lifestyle strategy in response to the introduction of the pension freedoms in 2016. No investment strategy review was carried out during the period covered by this Statement.

#### **1. Processing of Core Financial Transactions**

The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately. These include, but are not limited to:

- Transferring assets relating to members into and out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme,
- Making payments from the Scheme to or on behalf of members.

The Trustees have a Service Level Agreement ('SLA') in place with AEGON, the administrator of the DC Section, that covers the accuracy and timeliness of all core financial transactions described above. AEGON reports performance against the SLA to the Trustees on a quarterly basis and this allows the Trustees to monitor core financial transactions are processed promptly and accurately. AEGON's reports also detail any complaints raised by members.

During the period covered by this statement, 33 of the 277 tasks relating to core financial transactions were processed outside of the SLA. However AEGON has confirmed that, although those 33 items were recorded under 'financially critical' tasks, the specific tasks that fell outside of the SLA were not financially critical. A task recorded under 'transfers out' for example, covers all actions related to that transaction including any initial request for information or forms, as well as the final stage of disinvestment. AEGON prioritises all financially critical tasks and has confirmed all core financial transactions were completed within the SLA.

One member complaint was received during the period covered by this Statement and this was upheld. As a result, AEGON issued a letter of apology to the member, and this was accepted.

The Trustees are aware of a pricing issue that impacted some AEGON funds however AEGON has confirmed the Scheme has not been impacted by this, other than by the delays to regular reporting from AEGON which impacted all AEGON policies, while AEGON resolved the pricing issue.

The Trustees believe that the processes and control in place with AEGON are robust and will ensure that we can continue to monitor that the financial transactions which are important to members are dealt with properly.

## 2. Charges and transaction costs paid by members

The Trustees are required to set out:

- (i) the explicit charges (such as the Annual Management Charge and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio) and
- (ii) transaction costs (i.e. the costs of buying and selling investments in the fund) which are paid by members.
- (iii) An illustration to show the cumulative effect of costs and charges on members' funds.

Where information about member charges and costs is not available, the Trustees have to make this clear, together with an explanation of what steps we are taking to obtain the missing information.

### 2i Explicit charges

DC funds are invested in the Medium Risk Drawdown Lifestyle strategy if members do not select an alternative investment option. This strategy has levied a Total Expense Ratio of between 0.31% p.a. and 0.63% p.a. depending upon the members' term to retirement over the period covered by this statement.

The Trustees also make four additional lifestyle strategies and eleven self-select funds available to members. The Total Expense Ratio of these investment options varies from 0.28% p.a. to 0.65% p.a. as shown in the tables below.

### 2ii Transaction costs

We requested details of transaction costs levied on each fund held by members over the period from AEGON. Where available, these are set out in the table below and are shown as a percentage of the fund over the period, rounded to four decimal places.

Transaction costs are largely the result of buying and selling investments in a fund. Therefore, actively managed funds, such as the DC Diversified Growth Fund will have much higher transaction costs than passively managed funds, such as the DC Aquila Over 15 Years Gilt Index, or funds that invest in assets with low trading costs, such as the Cash Fund. Any performance quoted for a fund will take account of transaction costs, which will vary from year to year, depending on trades in the fund.

Table 1

Self-Select Fund	Total Expense Ratio (% p.a.)	Transaction Costs (%)
DC Aquila World (ex-UK) Equity Index	0.31	0.0034
DC Aquila (50:50) Global Equity Index	0.31	0.0083
DC Aquila UK Equity Index	0.31	0.0046
DC Diversified Growth Fund	0.63	0.3777
DC Aquila Life Market Advantage Fund	0.43	0.1484
DC Aquila Over 15 Years Gilt Index	0.32	-0.0027
DC Aquila Over 15 Years Corporate Bond Index	0.32	0.0048
DC Aquila Index-Linked Gilt Index	0.41	-0.0045
DC Long Gilt Fund	0.40	-0.0019
HSBC Amanah Pension Fund	0.65	0.0033
Cash Fund	0.28	0.0017

Table 2

<b>Lifestyle strategies</b>	<b>Total Expense Ratio depending upon term to retirement (% p.a.)</b>
Lower Risk Drawdown Lifestyle	0.35 - 0.63
Higher Risk Drawdown Lifestyle	0.31 - 0.33
Cash Lifestyle	0.28 - 0.63
Annuity Lifestyle	0.31 - 0.63

**Notes**

Transaction costs for the lifestyle strategies are determined by the underlying funds and will therefore depend upon the term to retirement.

The prescribed method of calculating transaction costs states the trading cost is arrived at by comparing the price at which the transaction was actually executed with the price when the order to transact entered the market. So, when selling into a rising market or buying into a falling market, the calculation produces a credit that may outweigh the other 'explicit' transaction costs, resulting in negative overall transaction costs. This has been the case for all of the Gilt funds over the twelve-month period to 31 December 2018.

The requirement to provide details of transaction costs calculated in a standard way is a relatively recent one. As such it is therefore difficult to carry out a market comparison to provide comfort around the reasonableness of the costs disclosed by the DC fund managers. However, it is evident from the level of transaction costs reported in the table above that transaction costs on the index-tracking funds have been negligible over the period.

We would expect actively managed funds to have higher transaction costs than index-tracking funds, and the transaction costs reported for the two actively managed funds (the Diversified Growth Fund and the Aquila Life Market Advantage Fund) are consistent with this.

**2.iii Examples to show the cumulative effect of costs and charges**

The Trustees are required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure").

The Regulations allow the Trustees to exercise their discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the scheme's membership.

The Trustees have taken account of the statutory guidance when preparing these illustrations.

We have decided to illustrate one example DC member for the Scheme:

- The youngest member (Age 31), with a retirement age of 65;
- Current fund value £18,000 (which is the median value of fund holdings in the DC Section);
- We have assumed no further contributions are paid; and
- Inflation is 2.0% per annum

We have produced illustrations to demonstrate the effect of costs and charges on the default strategy (Medium Risk Drawdown Lifestyle strategy). We have also illustrated the effect of costs and charges if the example member was invested in the DC Aquila UK Equity Index and the Cash Fund, as these funds have the highest and lowest assumed growth respectively.

The table below shows the estimated impact of transaction costs, charges and expenses on accumulated fund values for the example member.

Year	Default investment strategy		Cash Fund		DC Aquila UK Equity Index	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	£18,500	£18,400	£17,800	£17,700	£18,500	£18,400
3	£19,600	£19,400	£17,400	£17,300	£19,600	£19,400
5	£20,700	£20,400	£17,100	£16,800	£20,700	£20,300
10	£23,900	£23,200	£16,200	£15,700	£23,900	£23,100
15	£27,400	£26,000	£15,400	£14,700	£27,600	£26,100
20	£30,500	£28,100	£14,700	£13,800	£31,800	£29,600
25	£33,000	£29,100	£14,000	£12,900	£36,700	£33,600
30	£34,700	£29,300	£13,300	£12,100	£42,400	£38,000
34	£35,400	£29,100	£12,700	£11,500	£47,500	£42,000

### Notes

Values shown are estimates and are not guaranteed.

The projected growth rate for the default investment strategy is between 1.5% below and 0.75% per annum above inflation.

The projected growth rate for the Cash Fund is 1.5% per annum below inflation and this is why the fund value goes down over time.

The projected growth rate for the DC Aquila UK Equity Index is 2.5% per annum above inflation.

For the example member we have shown, the potential impact on their retirement fund as a result of charges is a total net reduction of £6,300 for the default investment strategy.

### 3 Value assessment

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustees have assessed the extent to which the charges and transaction costs, investment options and the benefits offered by the Scheme represent good value for members when 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.

- We have received advice on how to assess good value from our advisers and have considered regulatory guidance.
- We assess fund performance of the DC Section after charges on a quarterly basis to ensure the costs borne by members are reasonable for each fund offered through the Scheme.
- Using the cost-benefit analysis framework designed by our advisers, Aon, we have assessed how the costs paid by DC members compare against the services and benefits provided by the DC Section of the Scheme. Our assessment takes account of scheme management and governance, the range of investment options available, the efficiency of administration and the quality of communications and support services provided to members (particularly at retirement). We applied equal weighting to each of these factors as we consider them equally important.

Whilst a number of core financial transactions were processed outside of the SLA during the period covered by this statement, we are satisfied that AEGON has taken steps to address this. We have therefore concluded that overall the costs and charges borne by members represent good value for members

### 3. Trustee Knowledge and Understanding

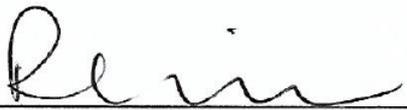
Sections 247 and 248 of the Pensions Act 2004 require the Trustees to have, or have access to, sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively. The comments in this section relate to the Trustee Board as a body in dealing with the whole Scheme and are not restricted to the DC Section of the Scheme.

The Scheme's Trustee Board is comprised of four Trustee Directors. Three have been Trustees for many years and therefore have a good knowledge of the Scheme and its governing documentation. Over the year, one new Trustee Director was appointed and he attended a trustee induction training course run by our professional advisers, Aon. The Chair of Trustees is the former Company Secretary and she has overseen all Trustee activity. The other Trustees also bring complementary skills from their professional backgrounds in Finance, Marketing and as a Company Director.

The Trustees develop their knowledge and understanding further through training at Trustee meetings and background reading outside of Trustee meetings. During the period covered by this statement, the Trustees received training from their advisers on defined benefit and DC issues and legislative changes that impact the Scheme as a whole, for example the new General Data Protection Legislation. The Trustees' professional advisers attended each of the Trustee meetings held over the year, and provided updates on relevant legislative changes as well as specialist advice or training to support the Trustee decision-making at each point in time.

As a result of the professional background of the Trustees, the length of time we have spent as Trustees of the Scheme, the training activities we have completed individually and collectively as a board, and taking into account the professional advice available to us, I am confident that the combined knowledge and understanding of the Trustees enables us to exercise our functions properly.

Signed on behalf of the Trustee of the Hallmark (1998) Retirement Benefits Scheme

  
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Chair of Trustee  
PAT GARDINGE

Date 12 June 2019