

Hoyer 2004 Occupational Pension Scheme (the “Scheme”) Chair of Trustees Governance Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) were amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 to include the requirement for the Trustees to prepare an annual statement regarding governance, which should be included in the annual report.

This statement issued by the Trustees covers the period from 1 July 2017 to 30 June 2018 and is signed on behalf of the Trustees by the Chair.

This statement covers governance and charge disclosures in relation to the following:

- The Default Arrangement,
- Processing of core financial transactions,
- Member borne charges and transaction costs,
- Value for Members assessment, and
- Trustees knowledge and understanding.

1. The Default Arrangement

The Trustees are responsible for the governance of the Scheme's investments. This includes setting and monitoring the default investment strategy in members' interests. The Trustees take into account the level of costs and the risk profile that are appropriate for the Scheme's membership in light of the overall objective of the default investment strategy. Investing in the default investment strategy is a requirement for active members to qualify for the Guaranteed Benefit provided by the Company. Deferred members can invest in any of the funds offered by AEGON through their policy, however in practice deferred members tend to remain invested in the default investment strategy.

The default investment strategy is the AEGON Growth Core Portfolio Lifestyle Strategy. This strategy invests in the AEGON Growth Core Portfolio until six years before selected retirement date, then switches funds to the AEGON Long Gilt Fund then the AEGON Cash Fund over the final two years before selected retirement date. At selected retirement date 75% is invested in the AEGON Long Gilt Fund and 25% in the AEGON Cash Fund.

The Statement of Investment Principles for the default investment strategy is included as an appendix to this statement. The Statement of Investment Principles governs decisions about investments in the default investment strategy and has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustees Directors 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 Scheme membership when designing the default arrangement.

The Trustees and our advisers, Aon Consulting Limited review the default investment strategy on a quarterly basis. In the Trustees meeting held on 6 November 2017, Aon recommended the Trustees consider alternative default investment strategies and it was agreed by the Trustees to review the options and after the review it was decided to remain with the current default investment strategy at this point.

2. Processing of Core Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately. The law specifies that these include the following:

- Investing contributions in the Scheme;
- Transferring assets relating to members into and out of the Scheme;
- Transferring assets relating to members between different investments within the Scheme; and
- Making payments from the Scheme to or on behalf of members/beneficiaries.

In practice, we delegate responsibility for this to AEGON and our external payroll provider.

The Trustees have put a process in place to ensure they can effectively monitor core financial transactions on a regular basis and can therefore ensure that the financial transactions which are important to members are dealt with properly and any issues are promptly identified. A copy of AEGON's business continuity plan has been received.

In light of the above, the Trustees consider that the requirements for processing core financial transactions have been met.

3. Member Borne Charges and Transaction costs

The Trustees should regularly monitor the level of charges borne by members through funds. These charges comprise:

- Explicit charges, such as the Annual Management Charge (AMC) and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio.
- Transaction costs borne within the fund for activities, such as buying and selling of particular securities within the fund's portfolio.

3i Explicit charges

The default investment strategy has levied a Total Expense Ratio of less than the charge cap of 0.75% per annum of assets under management for all members during the period 1 July 2017 to 30 June 2018.

The actual Total Expense Ratio is 0.60% per annum for funds arising from contributions invested and 0.45% on funds transferred from Aviva to AEGON.

All active members must be invested in the default investment arrangement as part of the scheme rules. The AMC is deducted from the fund value daily and the total AMC per annum is 0.60%. Annual illustrations show the effect over time of the AMC to the value of a member's pension fund. These charges are currently being reviewed by the Trustees.

3ii Transaction costs

The Trustees monitor the performance of the default investment strategy, and this performance includes the effect of transaction costs.

The Trustees have requested details of transaction costs for the period 1 July 2017 to 30 June 2018 from AEGON. AEGON have asked the fund managers to provide details of the transaction costs. Unfortunately the transaction costs are currently incomplete, as the fund manager was unable to supply the costs for the AEGON Growth Core Portfolio and its variants.

Illustrations – Impact of charges:

AEGON have provided example illustrations for both active and deferred members. The below sets out transactional costs and charges which apply to selected funds together with illustrative examples of the cumulative effect of these costs and charges incurred by members. Where AEGON refer to charges in the illustrations the charges also include any expenses. AEGON confirmed that other charges may apply in certain circumstances that are not covered by these illustrations.

Active Membership – Impact of Charges Illustration only:

This scheme is closed to new members. The AMC is 0.60% per annum for funds arising from contributions invested and 0.45% on funds transferred from Aviva to AEGON. (Currently AEGON are only able to illustrate on a 0.60% as shown below, funds invested at 0.45% are not shown):

Years	Mixed		Equity		Fixed Interest		Cash	
	Before charges	After all charges						
1	131,517	130,314	133,043	131,669	126,635	125,675	125,719	124,983
3	151,684	147,719	156,814	152,189	136,042	133,102	133,238	131,013
5	173,049	165,816	182,598	173,980	145,266	140,272	140,501	136,769
10	232,178	214,260	257,015	234,541	167,550	157,133	157,603	150,043
15	300,482	267,655	348,193	304,912	188,768	172,575	173,294	161,862
20	379,384	326,506	459,907	386,682	208,972	186,717	187,691	172,385
24	451,233	377,888	567,140	461,537	224,436	197,169	198,348	179,966

AEGON have made the following assumptions:

	Mixed	Equity	Fixed Interest	Cash
AMC	0.60%	0.60%	0.60%	0.60%
Additional Expenses	0.00%	0.00%	0.00%	0.00%
Transaction costs	0.34%	0.46%	0.18%	0.00%

- Currently age 41, the youngest member of the Scheme and a retirement age of 65.
- Contributions will increase by 2.5% each year and use the mean regular contribution.
- Projected pension fund values are shown in today's terms and do not need to be reduced further for inflation. Inflation is assumed to be 2.5% each year.
- Current pension fund £121,861.84 (median pension fund size).
- Each illustration has been produced on the basis this is the only fund invested in and that all transaction costs and scheme charges are deducted from that fund.
- The growth rate for each fund are for illustrative purposes only and not guaranteed. The investment growth achieved may be more or less than this and may vary depending on the type of fund. Mixed 5.50%, Equity 6.75%, Fixed Interest 1.50% and Cash 0.75%.
- An average of the transaction costs over the period for which they are available. Initially this is averaging a period of transaction costs which are less than five years. Where AEGON have transaction costs for five or more years AEGON will average the previous five years transaction costs.
- The growth rate AEGON have used is the same as the rate of inflation, this reduces the growth rate after making an allowance for inflation to 0%. Also, less than the rate of inflation, this produces a negative growth rate after making an allowance for inflation.

If the active member remains active within the Scheme then they are entitled to a Guaranteed Benefit of 1.66% of Scheme Salary for each full year and pro rata for a part year of Pensionable Service. The Guaranteed Benefit is provided outside of the Scheme and only applies to eligible employees who are active members normally with unbroken Pensionable Service at the date of retirement, unless the Trustees and the Company determine otherwise, who have invested in the default investment option for the Scheme throughout their Scheme membership. The Guaranteed Benefit is then reduced by a

proportion of your State Second Pension (S2P), up until 5 April 2016, that was earned during your membership of the Scheme. It should be noted that the State Pension is not payable until your State Pension Age and that the Guaranteed Benefit is reduced by this amount even if you are not receiving State Pension. If the fund value is insufficient to provide the Guaranteed Benefit at retirement the Company will pay a single contribution into your pension plan to meet the shortfall.

Deferred Membership – Impact of Charges Illustration only:

The AMC is 0.60% per annum for funds arising from contributions invested and 0.45% on funds transferred from Aviva to AEGON. (Currently AEGON are only able to illustrate on a 0.60% as shown below, funds invested at 0.45% are not shown):

Years	Mixed		Equity		Fixed Interest		Cash	
	Before charges	After all charges						
1	39,563	39,193	40,031	39,609	38,063	37,768	37,781	37,555
3	41,913	40,748	43,420	42,061	37,324	36,463	36,502	35,851
5	44,402	42,365	47,095	44,664	36,599	35,203	35,267	34,224
10	51,291	46,694	57,703	51,899	34,848	32,240	32,357	30,473
15	59,250	51,465	70,700	60,307	33,181	29,526	29,688	27,132
20	68,443	56,724	86,624	70,076	31,594	27,041	27,238	24,158
25	79,063	62,520	106,135	81,427	30,082	24,765	24,991	21,510
30	91,330	68,909	130,040	94,617	28,643	22,681	22,929	19,152

The assumptions are as per the active member, other than where shown below:

- Currently age 35, the youngest member of the Scheme and a retirement age of 65.
- No future contributions are made.
- Current pension fund £38,437.74 (median pension fund size).

4.Value for Members assessment

The Administration Regulations require the Trustees to review the charges and transactions costs borne by members funds and the extent to which those charges and costs and also the investment options and benefits offered by the Scheme represent “good value” for money for its members.

Together with Aon, the Trustees have established an assessment framework in order to assess the benefits of membership of the Scheme. The framework considers the following areas where benefits can be financial or non-financial in nature.

Member communications

- The Scheme provides effective communications that are accurate, clear, informative and timely.
- Members can access help to support them in their decision making by contacting Aon or sourcing their own independent financial adviser, who can obtain the scheme information from Aon.
- Active members are informed of the Guaranteed Benefit each year, when the annual statements are issued.

Sound administration

- The Trustees have appointed AEGON to provide administration services to the Scheme and are satisfied that AEGON has sufficient checks in place to monitor and report on the standard of the administration service and to ensure that when administrative errors do occur, members are not disadvantaged as a result.

Scheme governance

- Scheme governance covers the time spent by the Trustees to ensure the Scheme is run in compliance with the law and regulation, including taking account of the interests of its members.
- The Trustees believes that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes. The Trustees regularly reviews and updates its governance processes and procedures to make sure that these meet industry best practice.
- A separate statement setting out the Value for Members assessment is available on request from the Aon.

Having considered the results of the value assessment and the plans the Trustees have in place for addressing areas where the running of the Scheme may fall short of the best practice standards, the Trustees have concluded that the costs and charges represent good value for members.

5.Trustees Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as Trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Trustees have met the Pension Regulator's Trustees' Knowledge and Understanding requirements (as set out under Code of Practice No 7) during the Scheme year through the following measures:

- The Trustees are conversant with the Trust Deed and Rules and the Statement of Investment Principles for the Plan. The Trustees revert to their legal advisor for any clarification, if required.
- All the existing Trustees have completed the Pension Regulator's Trustees Toolkit and new Trustees are required to complete this within 6 months of taking up office. Records are held on file to confirm this.
- The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs.
- The Trustees board has a range of skills and experiences including a Member Nominated Trustees and Company Nominated Trustees with varying backgrounds.
- Maintaining training logs for each individual Trustee, which supports the above points.

In addition to the knowledge and understanding of the Trustees board, the Trustees has engaged with their appointed professional advisers regularly throughout the year to ensure that they run the DC Section and exercise their functions properly, including the following:

- Reviewing quarterly reporting of the default investment strategy against its benchmark with advice from its adviser (Aon), to monitor performance of the Scheme's funds against targeted benchmarks and overall Scheme aim and objectives.
- Ensuring that an audit of the Trustee's Report and Accounts continues to be completed.
- Holding regular Trustees meetings (with additional ad-hoc meetings and conference calls) with our advisers, Aon who provided reporting and advice before asking the Trustees to take

relevant decisions as required. Minutes of each Trustees meeting document the information shared and advice given.

- Maintaining a regime for proper governance (based on the Pension Regulator's DC Code of Practice).

Considering the training activities completed by the Trustees together with the professional advice available to the Trustees, the Trustees considers that it meets the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) and is confident that the combined knowledge and understanding of the Trustees, together with the input from its advisers, enables it to properly exercise its functions as the Trustees of the Scheme.

Signed on behalf of the Trustees of the Hoyer 2004 Occupational Pension Scheme.

Chair of the Trustees:

Signed:



Date:

20th May 2019

Name: Mark Binns

Appendix

Statement of Investment Principles for the default investment strategy

The Hoyer Pension Trustees Limited (the 'Trustees') is responsible for the assets of the Hoyer 2004 Occupational Pension Scheme ('the Scheme').

Under the Pensions Acts 1995 and 2004, the Trustees is required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles followed by the Trustees to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 in relation to the Scheme's default investment strategy.

In preparing this Statement the Trustees has obtained and considered relevant advice from their professional advisers, Aon. However, the ultimate power and responsibility for setting investment policy lies solely with the Trustees.

Aims & Objectives

The Trustees has designated a default investment strategy for members who do not make their own investment decisions. The key aim for the default investment strategy is to provide a strategy that is suitable for meeting members' long and short-term investment objectives, taking into account members' circumstances, and term to retirement. Investment in the default investment strategy is one of the requirements for active members to remain eligible for the Guaranteed Benefit provided by the sponsoring employer at retirement.

When setting the Scheme's default investment strategy, the Trustees considered the following:

- The need for appropriate diversification of asset classes.
- The suitability of each asset class for a defined contribution scheme
- The differing investment priorities for members, depending upon their term to retirement
- The format in which members are deemed likely to access their benefits

The aim of the default investment strategy is to provide members with potential for higher levels of growth during the accumulation of their retirement savings through exposure to a significant allocation to equities, by investing in the AEGON Growth Core Portfolio. Members who are further from selected retirement age can withstand the volatility associated with equity investment as their fund has sufficient time to recover stock market losses. Investments are then gradually switched to lower risk investments from six years before selected retirement age to reduce volatility and to reflect the basis for the calculation of the Guaranteed Benefit i.e. maximum entitlement to tax free cash and secure an income by way of a level annuity with the remainder of their fund. The gradual switch to lower risk funds means members have a greater chance of recovering losses if their fund starts to switch when markets are at a low point. The final asset allocation at selected retirement age is 75% AEGON Long Gilt Fund and 25% AEGON Cash Fund. This format is to be reviewed by the Trustees and their advisers, Aon.

Risk

The Trustees recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustees considered this risk when setting the default investment strategy for the Scheme.

The Trustees considers the following sources of risk:

- **Risk of unsuitability of default investment strategy** – the risk that the default investment strategy will be unsuitable for the requirements of some members. The Trustees seeks to mitigate this risk by regularly reviewing the suitability of the default investment strategy, in view of the format in which members can take their benefits, and investment options available at the time.

- **Market risk** –the value of policies allocated for member benefits fluctuate with the movement in the underlying asset values. This means that, at a member's retirement, there is a possibility that the fund will have to be realised to provide retirement benefits at an inopportune time. The default investment strategy automatically switches into lower risk funds as members approach retirement with the aim of reducing volatility.
- **Annuity purchase risk** – the default investment strategy switches investments to gilts and cash as members approach retirement. Annuity rates may be more expensive than anticipated and more expensive annuity rates could coincide with a time when retirement (gilt) funds have lost value due to market fluctuations.
- **Inflation risk** – the absolute return on investments, and hence the value of the members' pension policy may be diminished by inflation. To help mitigate this risk, the fund used during the growth phase invests significantly in equities with the aim of providing real growth (in excess of inflation) over the long term.
- **Manager risk** - the failure of the fund managers to meet their objectives. The Trustees has sought to minimise this risk by adopting a default investment strategy that uses passively managed underlying funds wherever appropriate.
- **Operational risk** - the risk of fraud, poor advice or acts of negligence. The Trustees has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced.

Due to the complex and interrelated nature of these risks, the Trustees considers these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. The Trustee's policy is to review the suitability of the default investment strategy every three years or without delay after any significant change in investment policy or the demographic profile of the membership.

The Trustees policy is to monitor these risks regularly, where possible. The Trustees receives quarterly reports from Aon showing the performance of the underlying funds in the default investment strategy, compared to their benchmarks, after fees.

The Trustees is responsible for deciding which AEGON lifestyle strategy to use as the default investment strategy but has no influence on the investment aims of each fund or how the investment managers choose the underlying investments within the fund as the assets are pooled with many other investors to obtain economies of scale.

Implementation

The assets of the Scheme are invested in an insurance policy issued by AEGON. AEGON is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA.

Investment in the insurance contract is under the control of the Trustees and it is the Trustees policy to review the investments and to obtain written advice about them periodically.

In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract. The investment managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

When choosing investments, the Trustees and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The managers' duties also include taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments and voting and corporate governance in relation to the Scheme's assets.

The investment objectives for each fund used in the default investment strategy are set out in the table overleaf.

Fund	Benchmark	TER* (% p.a.)	Investment objective
AEGON Growth Core Portfolio	Composite of underlying funds' benchmarks	0.60	The Portfolio aims to provide long term capital growth while keeping risk in a target volatility range of 12-14% over a market cycle. It invests in a mix of assets including equities, bonds and property aiming to invest approximately 70% in equities.
AEGON Long Gilt Fund	FTSE UK Gilts Over 15 Years Index	0.60	The Fund aims to perform broadly in line with its benchmark net of charges by investing primarily in UK government bonds with maturity dates of 15 years or longer.
AEGON Cash Fund	LIBOR 3m	0.60	The Fund aims to perform its benchmark before charges. It invests in short-term, sterling denominated money market instruments, such as bank deposits, certificates of deposit and short term bond. Instruments held in the portfolio will have a weighted average maturity of no more than 60 days.

*Total expense ratio.

Governance

The Trustees is responsible for the investment of the Scheme's assets. The Trustees takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustees has taken into account whether it has the appropriate training and expert advice in order to take an informed decision.