Clarkson PLC Pension Scheme 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 Trustees of the Clarkson PLC Pension Scheme (the "Scheme") are required to produce a yearly statement (which is signed by the Chair of Trustees) 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 Scheme is used as a Qualifying Scheme for automatic enrolment purposes.

The Trustees have made available a range of investment options for members. Members who join the Scheme and who do not choose an investment option are placed into the default Drawdown Lifestyle, (the "Default"). The Trustees recognise that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustees 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.

The Trustees are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustees' policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP 20 July 2020 covering the default arrangement is attached to this document.

The objective for the default option is to provide a long-term return in excess of inflation while displaying less volatility than a pure equity approach in the middle growth phase and reducing volatility for members approaching retirement age.

The Default arrangement was not formally reviewed during the period covered by this Statement but shortly after on 8 and 21 April 2020. Prior to this, it was formally reviewed by the Trustees on 6 February 2017.

The Trustees did consider the suitability of this Default on 21 June 2018 as part of the project to move the DC assets invested in the Scheme to Fidelity. As part of this project, the Trustees made changes to the equity components of the growth phase, which involved reducing the UK equity allocation, from 50% to 10%, to be more in line with a global index weighting. This was implemented as part of the move to the new provider, Fidelity, from 1 June 2019. When DC member assets were moved from Aviva to Fidelity, all of the assets were mapped into the Default, unless a member specified otherwise.

The performance and strategy of the Default were reviewed by the Trustees as part of the project in June 2018 to ensure that investment returns (after deduction of any charges) have been consistent with the aims and objectives of the Default as stated in the SIP, and to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership. Following receiving investment advice, the Trustees are satisfied that the Default remains appropriate for the membership.

In addition to the strategy review the Trustees also review the risk and return characteristics of the Default policies on a quarterly basis to check that the risk and return levels meet expectations. The Trustees' reviews that took place during the Scheme year concluded that the Default was performing broadly as expected.

The Trustees formally reviewed the Default shortly after the end of the Scheme year on 8 and 21 April 2020. This review included analysis of the membership demographics, analysing member choices at retirement, consideration of a shorter and longer de-risking glidepath and a review of the Default's underlying funds. This analysis supported the Default continuing to target drawdown at retirement as well as the de-risking glidepath and underlying funds remaining appropriate. Following the Trustees' recent April 2020 review of the Default, the Trustees were satisfied that the strategy and returns are consistent with the aims and objectives of the Default. However, the Trustees are considering evolving the equity allocation within the Default and will be reviewing this later in 2020.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrator of the Scheme and during Q3 2019 the Trustees moved service to Fidelity from Aviva as the Scheme administrator. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

The Trustees have received assurances from Aviva and Fidelity that there are adequate internal controls to ensure that core financial transactions for the Scheme are processed promptly and accurately.

The Scheme has a service level agreement ("SLA") in place with Fidelity which covers the accuracy and timeliness of all core financial transactions, holding them accountable to ensuring that at least 95% of transactions occur within the agreed timescale. The Trustees assess the key processes adopted by the administrator to help it meet this SLA.

- Fidelity administers the DC Section of the Plan in-house using a common administration platform, Aquila Administrator, that is fully integrated with Fidelity's investment dealing system to ensure that member records and fund prices are updated on a daily basis.
- The Record Keeping Team within the DC Administration department is split into functional teams, ie Withdrawals, Transfers in / out, New Joiners, and Contributions. All tasks are checked, using electronic task checklists. The majority of Fidelity's administration functions are carried out via a fully automated Straight Through Process ("STP"). This includes transfers in / out, member switching of investment funds for existing assets and future contributions also being carried out via STP and fully integrated within Fidelity's investment dealing process.
- Where Scheme / member information is received in a format that requires Fidelity's administrators to key in data onto its administration platform (such as a handwritten address change letter) Fidelity will affect a "second set of eyes" check.

To help the Trustees monitor whether service levels are being met, the Trustees receive quarterly reports about the administrator's performance and compliance with the SLA. Fidelity has outperformed its standard Service Level Agreements (SLAs) of 95%, reaching 96.7% in Q3 2019, 97.8% in Q4 2019 and 98.9% in Q1 2020. Any issues identified by the Trustee as part of its review processes would be raised with the administrators immediately, and steps would be taken to resolve the issues.

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

- Fidelity was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- 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 Scheme year.

Aviva, the Scheme's administrator for part of the year, was unable to provide information relating to the administration processes over the part year from 1 April 2019 to July 2019.

The Trustees also held legacy AVCs over the period with Old Mutual Wealth (OMW), Aviva and Standard Life. Both the OMW and Aviva arrangements were transferred to the main DC arrangements as part of the move to Fidelity in July 2019. The two remaining members with Standard Life both transferred their benefits out of the Scheme over the period and this arrangement was closed in January 2020.

4. Member-borne charges and transaction costs

The Trustees are required to set out the on-going charges incurred by members over 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 also include any costs, eg administration and investment costs, since members incur these costs.

The Trustees are also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme'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 costs have been supplied by Fidelity the Scheme's current platform providers. Aviva was unable to provide costs for the Scheme for the part-year period they were the Scheme's platform provider. When preparing this section of the Statement the Trustees have 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 Trustees have shown any negative figure as zero.

Default arrangements

The Default arrangement is the Default Drawdown Lifestyle. The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age 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 (%)
20 or more years to retirement	0.19 (0.20)	0.00
15 years to retirement	0.37 (0.39)	0.08
9 years to retirement	0.56 (0.58)	0.16
6 years to retirement	0.61 (0.69)	0.19
At retirement	0.64 (0.69)	0.19

As the Scheme's DC assets were moved to Fidelity in July 2019, the fees changed over the period. We have shown the range in fees paid by members over the period with the previous fees shown in brackets.

Self-select and AVC options

In addition to the default arrangement, members also have the option to invest in several other self-select funds. These funds are also used for members paying in AVCs. The annual charges for these during the period covered by this Statement are set out in the tables below.

The level of charges for each self-select fund available to members at Fidelity (including those used in the Default) 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 are shown in **bold**.

Self-select fund charges and transaction costs

Fund name	TER (% pa)	Transaction costs (%)
Passive Global Equity Fund	**0.19**	**0.00**
Diversified Growth Fund	**0.88**	**0.30**
Low Volatility Bond Fund	**0.58**	**0.17**
Cash Fund	**0.23**	**0.00**
Passive Diversified Growth Fund	0.20	0.00
Passive UK Equity Fund	0.19	0.00
Ethical Global Equity Fund	0.33	0.00
Passive Inflation Linked Bond Fund	0.19	0.06
Passive Corporate Bond Fund	0.20	0.00

In moving the Scheme's DC assets Fidelity in July 2019, the Trustees made a number of changes to the self-select fund range. All DC members were mapped to the Default but given the choice to invest in the new self-select fund range. We have shown the previous self-select fund range and fees at Aviva prior to the move the Fidelity. Transaction costs data was unavailable at the time of writing.

Fund name	TER (% pa)	Transaction costs (%)
BlackRock (50:50) Global Equity Index Tracker[1]	**0.20**	**-**
BlackRock Over 5 Year Index-Linked Gilt Index Tracker[1]	0.20	-

Fund name	TER (% pa)	Transaction costs (%)
Aviva Cash	**0.20**	**-**
Baillie Gifford UK Equity Core	0.50	-
BlackRock UK Equity Index Tracker[1]	0.20	-
BlackRock UK Smaller Companies	1.12	-
Baillie Gifford International	0.44	-
Baillie Gifford Managed	0.43	-
BlackRock Consensus[1]	0.20	-
Aviva Stewardship Managed	0.20	-
BlackRock Over 15 Year Corporate Bond Index Tracker[1]	0.20	-
Diversified Growth	**0.95**	-
Low Volatility Bond	**0.66**	-
M&G Feeder Property	1.05	-

Aviva, Old Mutual Wealth and Standard Life were unable to provide charges and costs for the Scheme's AVC arrangements for the part-year period they were invested.

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 Trustees have had regard to the relevant statutory guidance.

- Fidelity has provided the illustration for the purposes of this statement.
- 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 and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past year as this is the longest period over which figures were available and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

Projected pension pot in today's money

	Default		Highest expected return		Lowest expected return		Highest cost		Lowest cost	
	Default Drawdown Lifestyle		Passive Global Equity Fund		Cash Fund		Diversified Growth Fund		Passive Corporate Bond Fund	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£82,172	£82,022	£82,172	£82,022	£79,932	£79,757	£82,172	£81,249	£80,007	£79,972
3	£103,265	£102,744	£103,265	£102,744	£95,681	£95,106	£103,265	£100,092	£95,928	£95,811
5	£125,400	£124,406	£125,400	£124,406	£111,277	£110,235	£125,400	£119,402	£111,724	£111,512
10	£185,637	£182,960	£185,637	£182,960	£149,605	£147,121	£185,637	£169,801	£150,679	£150,170
20	£330,239	£321,475	£330,239	£321,475	£223,507	£217,030	£330,239	£280,359	£226,341	£224,996
30	£512,244	£483,077	£514,244	£494,390	£293,882	£282,089	£514,244	£405,337	£299,102	£296,619
40	£699,723	£615,272	£748,388	£710,247	£360,898	£342,634	£748,388	£546,616	£369,073	£365,178

- The illustration is shown for the Default Drawdown Lifestyle since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
  - **the fund with the highest before costs expected return** – the projections show equity funds as having the highest expected return. The Trustees have displayed the Passive Global Equity Fund as it makes up the growth phase of the Default Lifestyle.
  - **the fund with the lowest before costs expected return** – this is the Cash Fund.
  - **the fund with highest annual member borne costs** – this is the Diversified Growth Fund.
  - **the fund with lowest annual member borne costs** – the Passive Corporate Bond Fund and the Passive Diversified Growth Fund are joint lowest costs; the Trustees have displayed the Passive Corporate Bond Fund for illustrative purposes.

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.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £72,000 which is the average for this Scheme, based on all members having holdings in the Scheme.
- 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.
- Total contributions (employee plus employer) are assumed to be £700 per month. This is the average contribution for this Scheme based on all members currently making contributions.

- The projected annual returns used are as follows:
  - Default option: 2.4% above inflation for the initial years, gradually reducing to a return of 1.0% above inflation at the ending point of the lifestyle.
  - Passive Global Equity Fund 2.4% above inflation
  - Cash Fund: 0.5% below inflation
  - Diversified Growth Fund 2.4% above inflation
  - Passive Corporate Bond Fund: 0.4% below inflation
- No allowance for active management outperformance has been made.

5. Value for members assessment

The Trustees are 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 Trustees 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 schemes providing money purchase benefits).

The Trustees review 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 Scheme. The date of the last review covering the same period as this Statement was 14 July 2020. The Trustees note 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 Trustees' investment advisers have confirmed that the fund charges are competitive for the types of fund available to members.

The Trustees' assessment included a review of the performance of the Scheme's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the 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 Trustees also consider the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustees, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme 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 Scheme 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.

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

The Trustees believe 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, the Trustees believe that members of the Scheme are receiving good value for money for the charges and cost that they incur. The Trustees believe this because the fees benchmark well against other schemes.

6. Trustee knowledge and understanding

The Scheme's Trustees are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustees have 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 Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustees received training on ESG and responsible investments, as well as training from its legal advisors on the Regulator's Guidance for DC schemes on Covid-19.

All the Trustees are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out the Trustees' policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, the Trustees refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments. Further, the Trustees believe they have 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 schemes to fulfil their duties. The Scheme's professional advisors also support the Trustees in running the Scheme in accordance with its governing documentation.

All the Trustees are required to commit to completing the training, either at the relevant meetings or by personal study. All the Trustees have completed the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law).

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. The Secretary maintains the training log on behalf of the Trustees to note any training. The training log is referred to at the beginning of each meeting and any knowledge gaps and required additional training requirements may be requested by the Trustees and are noted by the Secretary. Trustees are responsible both on an individual and on a group basis for identifying any gaps in their knowledge and understanding and notifying the Scheme's professional advisors of any additional areas of training that they require. Additionally, the Scheme has in place a structured induction process for new trustees, including sessions with the Secretary and Scheme's advisors.

The Trustees are looking to introduce a self-assessment process during the next Scheme year in order to evaluate the effectiveness of the Trustee board as a whole, including the knowledge and understanding of the Trustees. This will also further assist the Trustees in being able to identify and address any knowledge gaps which the Secretary will ensure are addressed in future Trustees' training sessions.

Timely training is given to the Trustees at meetings prior to addressing complex issues. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training provided by the Scheme's professional advisors relates to topical items or specific issues under consideration and during the Scheme year, including training on the Trustees' duties, and the funding and investment principles relevant to the Scheme. The Trustees are also encouraged to attend external training courses run by external advisors on topical matters. Furthermore, training is arranged on an ad-hoc basis as necessary in the context of current Trustees' business. The DC advisors provide updates on DC market developments as part of reporting.

Considering the knowledge and experience of the Trustees and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

________________________ Date: 2 Sept 2020

Signed by the Chair of Trustees of the Clarkson PLC Pension Scheme