Yattendon Group Pension Scheme
Defined Contribution ("DC") funds Governance Statement

1. Introduction

An annual DC Governance Statement is required by law to show how the DC funds within the Scheme meet required governance standards. This Statement covers the period from 6 April 2018 to 5 April 2019.

During the Scheme year ending 5 April 2018, the Trustees transferred the funds held for Core only members and funds transferred-in from previous pension arrangements out of the Scheme. This Statement does not relate to these funds since they were not held in the Scheme during the year ending 5 April 2019.

Following the transfer out, all deferred members who remain in the Scheme have Defined Benefit ("DB") pension entitlements, known as Top-Up benefits. These Top-Up benefits have a guarantee (the "DC Underpin") that the benefits will not be less than the value of the pension secured by funds representing the Protected Rights that members accumulated in the Scheme, to which investment returns are added. These investment returns take the form of an annual bonus which will continue to be calculated in the same way in the future as they have been in recent years (consistent with the investment returns historically added to Core DC funds). It is expected that the DC Underpin could "bite" for one or more members and it is therefore necessary to cover these benefits as part of this Statement.

Some DC funds relating to some Additional Voluntary Contributions held with Equitable Life and Aviva were not transferred out as part of the bulk transfer and therefore remain in the Scheme. These are dealt with in Section 3.

2. The method of calculating investment returns ("bonuses")

For the year ended 5 April 2019 the method used for calculating investment returns for notional DC funds underpinning the Top-Up benefits was as follows:

(a) At 31 December 2018 the rate of investment return on the Scheme's assets was calculated based on information provided by the Scheme's investment advisers XPS Investment Limited (formerly Punter Southall Investment Consulting Limited).
(b) The annual bonus (investment return) added to notional DC funds for the year to 5 April 2019 is taken as the average investment return over the previous three calendar years.
(c) When a member retires, leaves or dies during the year an additional interim bonus is added. This is equal to 1/12th of the average investment return over the two previous calendar years multiplied by each complete month since the previous 6th April to date of retirement, leaving or death. For the year commencing 6 April 2019 this interim bonus is 2.0% pa.

Over the past five years the investment returns which have been declared at each 5 April are shown in the table below:

Year ended 5 April	Bonus declaration %
2015	15.8
2016	10.2
2017	5.6
2018	7.9
2019	5.9

These returns have been based on the assets held by the Scheme which have been invested predominately in company shares (equities) and other growth assets.

Over the year ending 5 April 2019, the Scheme's gilt investments have been held in funds managed by Legal & General Investment Management, with return-seeking assets held in funds managed by both Legal & General Investment Management and Columbia Threadneedle Investments. At 5 April 2019 the Scheme's invested assets were held as follows:

	Value £m	Percentage of assets %
Fixed interest gilts	7.2	8
Equities	41.1	46
Diversified growth funds	41.4	46
Total invested assets at 5 April 2019	**89.7**	**100**

Further detail on the Scheme's assets and performance are set out each year in the Scheme's report and financial statements. Details of the investment objectives are included within the Scheme's Statement of Investment Principles.

The Trustee carries out a full investment strategy review following the triennial valuation of the Scheme. The last full investment strategy review was carried out during 2017 and the Trustee will consider the need for a full review following completion of the valuation as at 5 April 2019.

During the year ended 5 April 2019 the Trustee met with their investment managers and advisers regularly and received quarterly investment reports to help monitor investment performance.

3. Additional Voluntary Contributions ("AVCs")

The Trustee has AVC policies with Aviva and Equitable Life. There are no contributing members and there is no default strategy. AVCs are invested in a range of funds in different asset classes and members have the option to switch investments between these funds.

The Trustee keeps the investment of AVCs under review and last reviewed them in detail in 2014. All members with AVCs were given the option to transfer these funds to a Scottish Widows Buy-Out Plan during 2017, which offered to them greater flexibility in benefits and access to a wider range of funds. The members with AVCs remaining in the Scheme elected not to take up this option.

Some DB Section members have With-Profits investments with Equitable Life ("the Society").

On 15 June 2018, the Society announced that it had entered into an agreement to transfer the Society and all its policies to Reliance Life, part of the LCCG Group. Should it progress, this would result in the closure of the With-Profits Fund which means the guaranteed investment return would end. It would be converted into unit-linked investments along with an enhanced capital distribution from the With-Profits Fund, and all policies would be transferred to Reliance Life.

All members affected can expect further communication on this before any change. This is expected to complete in late 2019. Further details can be found on the Society's website at www.equitable.co.uk.

4. General points on Scheme governance for DC funds

(extracts from the Statement of Investment Principles dated February 2018 are shown in italics)

Aims and objectives

As the investment returns credited to the notional funds underlying the DC Underpin are determined by the returns achieved on the total assets (i.e. those backing the DB benefits and forming the underlying DC Underpin), the overall investment objectives for the Scheme apply equally to the DC Underpin and DB funds.

The Trustees aim to invest the assets of the Scheme prudently with a view to ensuring that the benefits promised to members can be met from the assets of the Scheme. The Trustees will seek to benefit from the long term nature of the liabilities and the strong employer covenant with a view to achieving investment returns which will reduce the Scheme's reliance on employer contributions in the long term. The Trustees will also pay due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy.

Realisation of investments

All of the non-cash assets are held in pooled funds with frequent dealing dates. The Trustees have agreed to hold between 2 and 3 years worth of cash cover, held in short dated gilts, to meet benefit payments out of the Scheme. The Trustees have agreed to review the level of cash cover on a regular basis with a view to rebalancing to the gilt fund unless the Trustees believe that the market conditions make it inappropriate to do so.

Reviews of the current strategy of allocating bonuses

Funds relating to the DC Underpin are held notionally, and any assets required to pay such DC benefits are not held separately from the assets held in respect of the Scheme's DB benefits. As such, members have no choice over the notional investment of these assets, and no options can be offered to members over the investment of their notional pots. Any decisions taken by the Trustee relating to the investment strategy are likely to reflect the overall requirements of the Scheme rather than relating to the DC Underpin alone. No review of the bonus methodology (for determining investment returns to be added to such funds) was therefore undertaken by the Trustee over the Scheme year. The last review of the methodology took place in the Scheme year ending 5 April 2016.

Investing in members' best interests

Given the nature of the DC benefits, DC assets are only notionally invested in line with the Scheme's overall investments. The Trustee determines the investment strategy taking into account the best interests of members, particularly having regard to the security and adequacy of the DB benefits. It is expected in the vast majority of cases that the DB benefit will be significantly more valuable than the DC Underpin.

Investment returns

During the year the Trustee received quarterly reports on the performance of the funds under management (with Legal & General Investment Management and Columbia Threadneedle Investments). The reports were reviewed formally at each Trustee meeting.

Risks (NB: those relating to the DB benefits only have been excluded from the extract)

The Trustees recognise a number of risks involved in the investment of assets of the Scheme:

- *i.* *The risk of failing to meet the objectives… – the Trustees have agreed an investment strategy which they consider … has a reasonable expectation of meeting the investment objectives.*
- *iii.* *Risk of lack of diversification of investments – addressed through investing in pooled funds with diversification requirements and through investing the growth assets in pooled funds which invest across a range of assets.*
- *iv.* *Risk of holding assets that cannot be easily sold should the need arise – addressed through the use of pooled funds with frequent dealing dates.*
- *v.* *Underperformance risk – addressed through utilising two different managers and by monitoring closely the performance of each fund and taking necessary action when this is not satisfactory.*
- *vi.* *Organisation risk – addressed through regular monitoring of the Investment Manager and the Investment Adviser.*
- *vii.* *Credit risk – the risk that the platform provider fails is managed by using an insurer with no general insurance risks and by monitoring the credit rating of the platform provider.*

Processing of financial transactions

The administration of the DC funds including AVCs over the year was carried out by XPS Administration Limited. When a member retired, transferred out or died in deferment, XPS calculated the accumulated notional funds including the interim bonus and determined whether the DC Underpin applied to members' retirement benefits. If the DC Underpin were to apply, XPS would provide details of the options available to the member. Part of the funds could normally be taken as a cash sum with the balance being used to secure a pension with an insurance company outside the Scheme. Over the year ending 5 April 2019, the DC Underpin did not apply for any members taking their benefits. If a member with AVCs retired or transferred out of the Scheme, XPS would liaise with the AVC provider to provide details to the member of the relevant options. XPS would then arrange for the disinvestment of the AVCs and payment to the member as appropriate.

XPS adopted internal control procedures that were designed to ensure that core financial transactions were processed promptly and accurately and this was the case during the period.

The Trustee received quarterly reports from the Scheme administrators that enabled them to monitor the administration service and, in particular, that agreed service levels were being met. The Trustee also reviewed the annual administration assurance reports obtained by the Scheme administrator, which provided assurance that the internal control procedures were being followed in practice.

Charges and transaction costs

Given the nature of the Scheme's DC Underpin, no costs are explicitly borne by members. The Scheme's investments are subject to investment charges levied by the investment managers and transaction costs, which both reduce the value of the notional investments underpinning their Top-up benefits. All administration costs were paid for by the Company.

Transaction costs were variable costs associated with investment trading and were incurred when investments were bought and sold as part of the ongoing smooth running of each fund. They were an essential part of generating investment returns on behalf of Scheme members and managing risk. Given that the underlying assets predominantly relate to the DB benefits and only form a DC benefit in the event that the DC Underpin bites, it is not possible to accurately estimate the transaction costs relating specifically to the DC funds within the Scheme. However, the overall management and transaction costs for the Scheme's investments totalled just over £180,000 over the period (equal to around 0.20% of the Scheme's total assets). The transaction costs split by fund are set out in the table below.

As noted above, the investment managers made investment management charges which depended on the underlying asset classes in which they invested. The charges applying to each fund in which the Scheme's assets were invested over the year ending 5 April 2019 are set out in the table below.

Fund	**Annual fund charge (total expense ratio)**	**Transaction costs over year to 31 March 2019 (% of assets)**
Legal and General Investment Management		
• 0 to 5 Year Gilts Index Fund	0.075% pa	0.143%
• Dynamic Diversified Fund	0.395% pa	0.447%
• World Equity Index Fund	0.115% pa	0.008%
• World Equity Index Fund (GBP Hedged)	0.135% pa	0.101%
Columbia Threadneedle		
• Dynamic Real Return Fund	0.635% pa	0.282%

The charges on the AVC funds, as provided by Equitable Life and Aviva, are set out below. Equitable Life has confirmed that the transaction costs applying over the year to 31 March 2019 due to buying and selling of underlying assets were approximately 0.036% of assets, with further charges of approximately 0.004% in relation to stocklending costs. Aviva have confirmed that there were no transaction costs over the period.

Fund	**Annual fund charge (total expense ratio)**
Equitable Life With-Profits fund	1.5% pa *(inclusive of 0.50% pa for the cost of providing the guarantees)*
Aviva unit linked funds	
Lion Trust UK Ethical	0.60% pa
Deposit	0.60% pa
Global Equity	0.60% pa
UK Equity	0.60% pa
Aviva With-Profits fund	0.60% pa

Value for Members

The Trustee is required to assess the extent to which the (ongoing) charges and transaction costs set out above represent good value for members. The Trustee believes that the lack of an administration charge payable by members has represented good value to members and that the investment management charges were within the range expected for the asset classes it manages. Overall the Trustee believes the bonus system has worked well and in general has given good value for members. As the only DC funds (other than AVCs) relate to the DC Underpin, which is expected not to bite for the majority of members, the Trustee does not feel it would be proportionate to undertake a detailed assessment of the value for members of the investment managers' charges. A review of the value for members offered by the AVC funds will be undertaken in due course, once there is further clarity on the way forward for Equitable Life members.

Trustee knowledge and understanding

The Trustee is required to have appropriate levels of trustee knowledge and understanding. This is achieved in a number of ways including:

- Regular review of knowledge and understanding and associated training needs at Trustee meetings.
- Appropriate training undertaken at or outside of regular Trustee meetings, for example a session with the Scheme's lawyers in March 2019 on the provisions under the Deed and Rules.
- Review of reports monitoring the performance of the funds under management by the Scheme's investment manager(s).
- Review of reports monitoring the administration service and any administration issues arising.

The Trustee has also appointed professional advisers who provide advice and support, to ensure the Trustee is able to manage the Scheme properly.

Social, environmental or ethical considerations

The Trustees have elected to invest in pooled index funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. The Trustees are satisfied that the Investment Managers' corporate governance policy reflects the key principles of socially responsible investment.

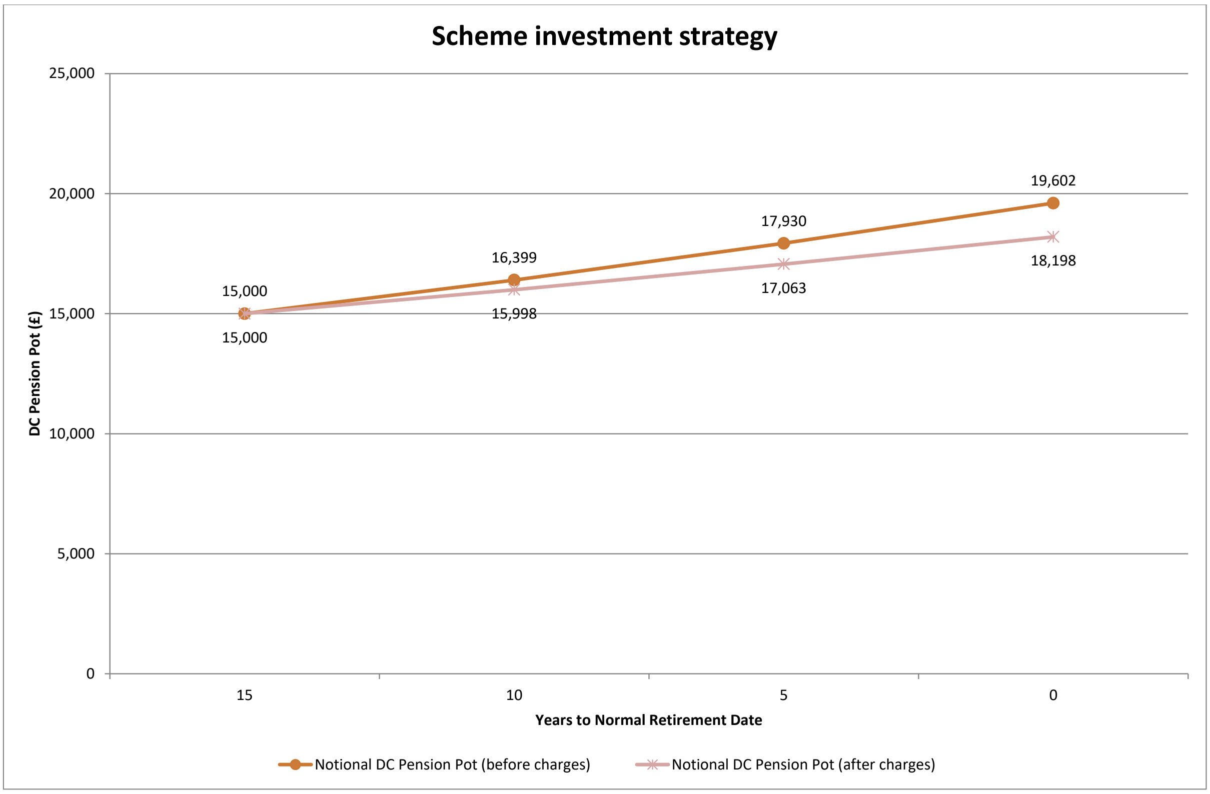
5. Illustration of charges levied on members

Below you can find an illustration of the effect of the Total Expense Ratio and transaction costs met by members on an example pension pot over time. This is for illustration only. The actual returns received are likely to differ over time as will individual members' pension pot sizes. This illustration is based on the following assumptions:

- The assets are notionally invested in the overall benchmark investment strategy of the Scheme, which is not expected to change over the period of the projections.
- The projection only relates to the DC underpin and no account is taken of the DB benefit that is being underpinned.
- The member has an initial notional pension pot of £15,000.
- The member is currently 15 years from Normal Retirement Date.
- No contributions will be made to the notional pension pot over the period.
- Investment returns on the funds the Scheme invests in are assumed to be as follows:

Fund	Expected return
Legal and General Investment Management	
• 0 to 5 Year Gilts Index Fund	Gilt yields ***(1.15% per annum)***
• Dynamic Diversified Fund	Gilt yields plus 3.3% per annum ***(4.8% per annum)***
• World Equity Index Fund	Gilt yields plus 4.0% per annum ***(5.5% per annum)***
• World Equity Index Fund (GBP Hedged)	Gilt yields plus 4.0% per annum ***(5.5% per annum)***
Columbia Threadneedle	
• Dynamic Real Return Fund	Gilt yields plus 2.9% per annum ***(4.05% per annum)***

- Projected pension pot values are shown in terms of current prices, i.e. the actual figures will be higher to the extent that there is future inflation. Inflation is assumed to be 2.5% per annum.
- Charges (including transaction costs) are assumed to remain at the same level (as a percentage of assets) over the period of the projection as they were for the year ending 31 March 2019.



Tabular illustrations for the Scheme's investments (as shown above), along with all of the available AVC funds are shown in the Appendix of this Statement. The investment return assumptions used for the fund illustrations were provided by the Scheme's investment advisers and represent their current view of long-term expected returns on the various underlying asset classes in each fund.

In preparing these illustrations, the Trustees have had regard to:

- The Occupational Pension Schemes (Scheme Administration) Regulations 1996;
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018;
- The Pensions Regulator's Code of Practice number 13 on 'Governance and administration of occupational trust-based schemes providing money purchase benefits'; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix.

Signed for and on behalf of the Trustee of the Scheme

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Chairman of the Trustee Date 31 October 2019