Beales Pension Scheme Defined Contribution Section

Chairman's Statement

Introduction

On 17 October 2017, the Trustees agreed to transfer the assets and liabilities of the Defined Contribution Section to the Aegon Master Trust. This transfer was completed in December 2018. Prior to the transfer, Aegon provided the investment platform and the administration services to the Trustees. The now transferred Defined Contribution Section of the Beales Pension Scheme ("the Transferred DC Section") had been closed to new members and new contributions in 2013.

This statement:

- is in relation to the Transferred DC Section and the Additional Voluntary Contribution arrangements ("AVCs") included within the Defined Benefit Section which closed to future accrual in 2009; and
- covers four key areas:
    - The investment strategy which related to the default arrangement (The AVCs in the Defined Benefit Section are invested and managed in the same manner as the main Defined Benefit assets).
    - The processing of financial transactions;
    - Charges and transaction costs; and
    - The Trustees' compliance with the statutory knowledge and understanding requirements.

Annual statement regarding governance

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, the Trustees of the Transferred DC Section are required to prepare a statement on governance (the 'Statement') for inclusion within the Beales Pension Scheme's Report & Accounts.

This document sets out the Statement covering the period 1 November 2017 to 31 October 2018. Throughout this period, the Trustees have sought input from their advisers on matters of governance and good practice.

The default investment arrangement of the Transferred Defined Contribution Section

The default investment arrangement for the Transferred DC Section was the Lifestyle Fund. Under this arrangement a member's Retirement Account was invested in BlackRock's Global Growth (70/30) fund until 5 years before their Target Retirement Age; from this point, assets were gradually transferred to lower-risk funds (initially to the Pre-Retirement Fund and then to the Cash Fund so that, at retirement, 75% of the member's Retirement Account was invested in the former and 25% in the latter. This process was referred to as the Annuity Purchase Lifetime Investment Programme.

In accordance with the Administration Regulations, the Trustees have appended the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Beales Pension Scheme in compliance with Section 35 of the Pensions Act 1995 and Regulation 2/Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. The SIP has recently been revised and, due to the transfer out of the Transferred DC Section, it does not refer to the Defined Contribution investments as there are now no such investments separately invested (as indicated above, the AVCs in the Defined Benefit section are invested in line with other Defined Benefit assets).

The Trustees undertook a review of the Transferred DC Section's default investment arrangements at least triennially. Ad hoc reviews of strategy and/or investment policy may also have been undertaken in the event of significant legislative, market or member demographic changes. The Statement of Investment Principles is reviewed at least every three years which implicitly includes the investment of the AVCs in the Defined Benefit Section

Prior to 2017, the last review was undertaken in autumn 2014. It was decided at that time to leave the default investment arrangements unchanged. During 2017 the Trustees considered the appropriateness of a closed Defined Contribution Section continuing within the Beales Pension Scheme and, as explained in the introduction, a decision was made on 17 October 2017 to transfer the assets allocated to members and associated liabilities of the Transferred DC Section to the Aegon Master Trust. In view of this decision, no change was made to the Defined Contribution default fund.

The Trustees and their professional advisers reviewed how the funds within the Transferred DC Section's default investment arrangement have performed against the investment managers' objectives and benchmarks. Over a 1, 3 and 5 year period to 30 September 2018, the returns were broadly in line with the benchmarks.

Charges and transaction costs of the transferred DC Section

As required by the Administration Regulations, the Trustees are required to report on the charges and transaction costs for the investments which were used in the default arrangement and their assessment of the extent to which these charges and costs represented good value for members.

The actual Total Expense Ratio ('TER') applicable to the Transferred DC Section's default investment arrangement Lifestyle Fund (Annuity Purchase Lifetime Investment Programme) at any one time will reflect the TERs applicable to the underlying funds being used, which are not all below the charge cap of 0.75% per annum. The TER was at its highest during the growth phase at 0.76%. This is just above the 0.75% but the cap only applies to automatic enrolment qualifying schemes, and the Transferred DC Section was not in that category. The TER then fell during the 5 years prior to Selected Retirement Age, to reflect the automated transition of assets to bond and money market funds, which had lower TERs.

The TERs applicable to the constituent funds that made up the Annuity Purchase Lifetime Investment Programme which were the only funds invested in by members, were as follows:

Constituent fund	TER (%, p.a.)
Global Growth (70/30) Fund	0.76
Pre-retirement Fund	0.51
Cash Fund	0.33

The Trustees commenced the review of the approach to providing Defined Contribution benefits in 2017 as, given the size of the section, it was difficult to exert any influence to obtain better costs and improve the value for members. A cost effective approach to market analysis was also unrealistic. Whilst the Trustees did not consider the value to members to be unreasonable, one of the drivers behind the decision to transfer the Defined Contribution Section to a Master Trust, was the recognition that the costs attached to individual funds would be generally lower than the existing approach and there was, in all probability, going to be better value for the members overall due to the specialist nature of a master trust and its more substantial size. For example, in writing to the members about the transfer, it was stated that:

> The default option of the DC Section was the Lifestyle Fund and had a charge that started at 0.76% p.a. ..... If you were invested in the Lifestyle Fund, as part of the transition to Master Trust, your assets will be switched to the Aegon LifePath Retirement option, which will have a charge of 0.51% p.a. .....

All TERs quoted in this statement were applicable as at 31 October 2018.

Transaction costs were also applicable. As at 30 September 2018 (the most relevant date for which information is available), these were:

Funds	Aggregate transaction costs (Basis points per transaction*)
Global Growth (70:30) Fund	17.672 bps
Pre-retirement Fund	0.493 bps
Cash Fund	0.020 bps

* There are 100 basis points (bps) in 1 percent.

Background to and charges and transaction costs of the AVCs held with the main Defined Benefit assets

AVCs are held with the main Defined Benefit assets for historic reasons. Due to the scale of the AVCs relative to the overall Beales Pension Scheme and as AVCs are no longer accepted, the Trustees consider it appropriate to retain the existing arrangements for investment of AVCs within the Defined Benefit Section, which are in every case a supplement to the member's main Defined Benefit pension from the Beales Pension Scheme. The default fund is consistent with the overall investment strategy as set out in the SIP.

The TER applicable to AVCs held within the main Defined Benefit assets as at 31 October 2018 was 21 bps, which is considered by the Trustees to be good value for money.

Transaction costs are also applicable. Over the year to 31 October 2018 these equated to 18 bps. This includes

the transaction costs associated with the changes that were made to the structure of the Defined Benefit arrangements over the course of the year under review. In particular, the 30% of Defined Benefit assets previously invested in passive equities were transferred to a diversified growth fund. The TER applicable to AVCs held within the main Defined Benefit assets marginally increased from 17 bps at the start of the year under review to 21 bps as a result of these changes.

The target asset allocation agreed as part of the investment strategy review carried out over 2017/18 had yet to be fully implemented by the end of the reporting period, following which assets previously invested in corporate bonds were sold and proceeds invested in a combination of fixed interest gilts and absolute return bond funds. The table below sets out the agreed strategic target asset allocation and resultant TER applicable to AVCs held within the main Defined Benefit assets at both the underlying strategy and total level. The table also sets out the ongoing transaction costs that are expected to be incurred going forwards, based on those applicable to the relevant funds over the past 12 months (no allowance has been made for the transaction costs incurred as a result of the aforementioned investment strategy changes, given that these are not expected to be repeated). The transaction costs associated with rebalancing between pooled funds has also been taken into account based on past experience, although such costs are expected to be negligible.

Funds	Strategic Target (%)	TER (%, p.a.)	Transaction Costs (% p.a.)
Diversified Fund	30	30 bps	12 bps
Over 15 Year Gilts Index Fund	29	9 bps	-
Over 5 Year Index Linked Gilts Index Fund	21	9 bps	-
Absolute Return Bond Fund	20	59 bps	12 bps
Total (reflecting strategic target)	**100**	**25 bps**	**6 bps**

While the changes have resulted in an increase in the TER applicable to AVCs held within the main Defined Benefit assets, the Trustees believe that the revised TER remain good value for money.

The Trustees review the performance of these assets on a quarterly basis and the Trustees are satisfied with the return compared to benchmarks and the longer term objectives of the Defined Benefit Section.

Cumulative effect of costs

The cumulative effect of TER and applicable transaction costs are based on time and value in the case of TERs and events and value in the case of transaction costs. The following table illustrates the cumulative effect of costs on the value of an investment currently valued at £10,000:

Years from now	Global Growth (70/30) Fund* £	Pre-Retirement Fund* £	Cash Fund* £	AVC funds invested with Defined Benefit assets** £	
				No Costs	Including Costs
1	9,924	9,949	9,967	10,193	10,161
3	9,774	9,848	9,901	10,590	10,491
5	9,626	9,748	9,836	11,002	10,831
10	9,265	9,502	9,675	12,105	11,732
15	8,919	9,262	9,516	13,319	12,707
20	8,585	9,028	9,360	14,654	13,763
25	8,264	8,800	9,207	16,123	14,908
30	7,954	8,578	9,056	17,739	16,147
35	7,657	8,361	8,908	19,517	17,489
40	7,370	8,150	8,761	21,474	18,943

* In respect to the Transferred DC Section, following a request for the illustrative information required by the Administration Regulations and associated guidance, Aegon advised the Trustees:

> "We are not able to produce an illustrative example of the cumulative impact of costs and charges on member savings, as the plan is closed and no longer exists on our system for an illustration to be produced. Also as the illustrations are based on typical existing fund values and contribution rates, all of which are zero there is no basis for producing an illustration."

The values shown have, therefore, made no assumptions for investment return as the Transferred DC Section has now been transferred and the effect of future inflation has not been recognised for the same

reason. There will also be no transaction costs as the Transferred DC Section has transferred to a master trust so these have not been recognised.

Former members of the Defined Contribution Section are reminded that, following the transfer out of the Defined Contribution Section, there are no accrued rights to money purchase benefits in the section and accordingly no cumulative impact of costs and charges on the value of any accrued rights. The accrued rights of former members in the Defined Contribution section were transferred to the Aegon Master Trust, which is obliged to produce and publish its own illustrative examples.

** The assumptions used in preparing this illustration are an investment return of 3.5% above gilts for AVCs which are invested with the Diversified Fund and 2.5% above gilts for AVCs which are invested within the Absolute Return Bond Fund. The costs assumed are in line with the TERs and transaction costs outlined in the previous table. As the Beales Pension Scheme is closed, it is assumed that there are no contributions.

None of the values above are guarantees.

In preparing these illustrations, consideration has been given to the Administration Regulations and associated guidance. For the Transferred DC Section, departures from the requirements have been explained above.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. This includes:

- Transfer of members' assets into and out of the Transferred DC Section and the AVCs held with the main Defined Benefit assets;
- Transfers of members' assets between different investment options available to them; and
- Payments from the Transferred DC Section and the AVCs held with the main Defined Benefit assets to, or in respect of, members.

All of the transactions were undertaken by the relevant manager on behalf of the Trustees with oversight by the Trustees' advisers as necessary. The Trustees monitored the extent to which the above core financial transactions were processed promptly and accurately through the following framework. This was achieved as follows:

- Trustees reviewing the quarterly reports produced by Aegon and Mercer, the main Defined Benefit Section's administrator;
- Trustees reviewing the internal control reports produced by BlackRock together with any bridging letters covering periods subsequent to the report provided by Aegon following its acquisition of BlackRock:
- The review of internal control reports provided by Mercer;
- The Beales Pension Scheme's risk management processes which are monitored and reviewed on a regular basis: and
- Consideration of any matters arising from the work of the Beales Pension Scheme's auditor, BDO LLP

The Trustees considered any departures from agreed service levels and sought further information from Aegon as necessary. It was concluded that the majority of transactions were processed promptly and accurately and any departures were not significant.

In considering the transfer to the Aegon Master Trust, the Trustees worked with their appointed adviser to set out the requirements for the future service to members and the adviser considered these requirements before advising on the receiving Master Trust.

As the Defined Contribution Section has been closed for many years, the above does not include the receipt and investment of any contributions as none were receivable.

In relation to the AVCs held with the main Defined Benefit Section assets, there was no activity with regards to the investment of contributions as none are currently made. As already mentioned, a number of changes were made to the Defined Benefit investment strategy, during and after the period under review. The administration reports cover both Defined Benefit and AVC entitlements together and the Trustees are satisfied that the service provided has been in line with expectations.

Trustee Knowledge and Understanding ("TKU")

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with the professional advice which is available

to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during the period to which this Statement relates as follows:

- Individual Trustees complete an annual "Fit & Proper" declaration which includes confirmation of the maintenance of TKU
- The Beales Pension Scheme's Secretary maintains a log of training and individual Trustees are asked to provide updates on their individual training activities and progress with the Pensions Regulator's Toolkit
- The professional trustee who chairs the Board and the Trustees' advisers provide expertise and training on matters as they appear on meeting agendas
- The Beales Pension Scheme's advisers provide regular update bulletins to all Trustees
- Where there are specific issues to be considered in relation to the Deed and Rules, the Beales Pension Scheme's legal adviser attends the meetings
- Advisers attend Trustee meetings as required and provide training on topical matters

On the basis of the above, together with the knowledge of the sponsor's business and industry sector held by individual Trustees, the Trustees are collectively able to properly undertake the governance of the Beales Pension Scheme.

I confirm that the above Statement has been produced by the Trustees and is correct to the best of their knowledge.

Signature:

Name: Bob Hymas for BESTrustees Limited

Position: Chairman

Date: 15 May 2019

Appendix:

Statement of Investment Principles