

# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### Chair's Governance Statement

#### Annual Chair's Statement for the Paragon Pension Plan ("the Plan")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which should be included in the annual report.

This statement covers the period from 1 April 2018 to 31 March 2019 and is signed on behalf of the Trustee Directors by the Chair. This Statement is in relation to the Defined Contribution (DC) benefits in the Plan which are AVC arrangements and transferred-in DC funds.

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
- Trustee knowledge and understanding.

#### 1. The Default Arrangement

*The Trustee is required to design default arrangements in members' interests and keep them under review. The Trustee will need to take account of the level of costs and the risk profile that are appropriate for the Plan's membership in light of the overall objective of the default arrangement strategy.*

The Trustee is responsible for investment governance and for producing and maintaining the Plan's Defined Benefit ("DB") Statement of Investment Principles (SIP), as well as the Additional Voluntary Contributions ("AVCs") SIP and setting and monitoring the investment strategy for the AVCs default arrangement. The default arrangement is provided for members of the Plan that do not choose an investment option for their contributions.

The default arrangement for the AVCs reflects the expectation that members will take their benefits as cash at retirement to supplement their tax-free cash allowances. The aim of the default arrangement is to strike a reasonable balance between the desire to maximise the opportunity for growth while maintaining a degree of capital preservation.

The AVC funds are provided by Prudential and the current default AVC investment is the Prudential With Profits Cash Accumulation Fund. Members can also choose to invest AVCs in one of 11 unit-linked funds.

The latest formal AVC review was undertaken in July 2017 and deemed that the investment team at Prudential were sound and capable of managing the With Profits Cash Accumulation Fund. The Trustee considers the default arrangement to be appropriate for the Plan based on the review undertaken in July 2017 which included consideration of the Plan's membership. In 2020 the Trustee will conduct a triennial formal review of the AVC arrangement, giving due consideration to the level of costs and the risk profile that are appropriate for the Plan's membership. No AVC review was undertaken during the scheme year.



# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### 1. The Default Arrangement (continued)

The latest DB SIP for the Plan, dated February 2019, governs decisions about DB investments. The Trustee has implemented a separate AVC SIP in October 2019 which governs decisions about AVC investment which is included in the Appendix to the Trustee's Report & Accounts. Both the DB and AVC SIP are prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the "Statement of Investment Principles").

The Trustee will consider the amendments required to the SIP as set out in the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

### 2. Processing of Core Financial Transactions

*The Trustee has a specific duty to ensure that these transactions are processed promptly and accurately. Legislation does not set out a list of core financial transactions and it rests with the Trustee to identify these types of transactions for the Plan. The Trustee includes but does not limit the Plan's core financial transactions to the following:*

- *the receipt and investment of member contributions;*
- *transfer of member assets into and out of the Plan;*
- *transfer of assets between different investments within the Plan; and,*
- *payments to and in respect of members.*

The Trustee has appointed Aon and Prudential to provide administration services relating to AVC benefits within the Plan. The core financial transactions are undertaken on the Trustee's behalf by these providers and Service Level Agreements (SLAs) are in place with them. The contract (and SLAs) with Aon was reviewed in 2014 and is updated as needed to ensure it is fit for purpose and reflects the Trustee's needs. The SLA covers the accuracy and timeliness of all core financial transactions.

To enable the Trustee to monitor the processing of core financial transactions, the Trustee Board receives quarterly administration reports from Aon on key aspects of the administration which includes a payment schedule, an investment schedule and performance against the agreed service levels. The reports are reviewed by the Trustee at each Board meeting to ensure the Trustee can monitor administration performance.

Aon and Prudential have confirmed that there are processes in place for each core financial transaction to ensure that all Plan transactions are processed in a timely manner and accurately. An automated daily sales and redemptions report is used to check transactions placed the previous day. As an additional level of scrutiny, Aon also have an internal reconciliations team who independently carry out monthly checks, in addition to daily reconciliation of the Trustee bank account.

Aon and Prudential have internal audit functions in addition to the external audit carried out on the Plan annually.

Administration service performance over the year has been in line with SLAs set out in the contract with Aon and 93% of target delivery times have been met in each quarter; for Prudential 81% of target delivery times have been met over the period. The Prudential figure relates to a small number of cases (11) of which 2 were processed outside normal service standards. The Trustees are comfortable with the overall time taken to complete the two more complex cases outside of normal service levels. There have been a small number of member complaints in relation to the administration of the Scheme as set out below, however the Trustee Directors do not believe they were a result of a systemic error and represent less than 1% of the Plan's total population.

- Correspondence from members over the period include complaints on a retirement quotation being lost in the post, historic benefits being incorrectly quoted a mishandling of documents and a lump sum payment being made after a member's retirement date, and in two of the above cases, it was deemed that the inconvenience warranted small compensation payments.



# THE PARAGON PENSION PLAN

## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### 2. Processing of Core Financial Transactions (continued)

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

### 3. Member Charges Transaction Costs

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

- *explicit charges, such as the Annual Management Charges (AMCs), and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratios (TERs); and,*
- *implicit transaction costs, such as the costs borne within the fund for activities such as buying and selling of securities within the fund's portfolio.*

#### 3.1. Explicit charges

The default arrangement is the Prudential With Profits Cash Accumulation Fund.

Charges levied in the Prudential With Profits Cash Accumulation Fund are inherent within the annual bonus declarations. Prudential state that the charges levied on the Fund are currently expected to be 0.8% p.a. assuming future investment returns in the With-Profits fund are 5% p.a. The Trustee considers that charges are at the lower end of the majority of with profits funds, and the value members are likely to receive from the smoothing and capital preservation characteristics of with profits funds are likely to outweigh costs. The Trustee therefore believes that costs are reasonable considering the added value.

The Trustee asked its adviser to consider the charges as part of a review of the AVC investments in the context of whether annual bonuses after charges are comparable with similar arrangements. The conclusion of this review was that charges are suitable given the size of arrangement and the funds offered to members.

The Trustee also makes available a range of eleven self-select funds for members (including AVC members). The funds attract "explicit costs" which are made up of the Annual Management Charge and additional expenses and are expressed as a TER. The TER applicable to funds offered is between 0.55% p.a. and 1.31% p.a. as set out in the table on the following page.

#### 3.2. Implicit charges

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. These cover such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed (arrival price). This method, although reasonable, if observed over a long period of time can result in a volatile measure from one year to another and can even result in a profit to the fund, which will be shown as 'negative costs'. This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down such as some negative publicity or a large sell order by someone else.

The self-select fund range attracted "implicit costs" in Transaction Costs (TC) of between -0.10% p.a. and 0.26% p.a. over the 12-month period to 30 June 2018 (this is the latest information available from Prudential), as shown in the table below.

## THE PARAGON PENSION PLAN

### CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

#### 3.2 Implicit charges (continued)

Fund	TER (% p.a.)	TC (% p.a.)
BlackRock Aquila (50:50) Global Equity Index	0.75	0.03
BlackRock Aquila Over 15 Years UK Gilt Index	0.75	0.11
Prudential Cash	0.55	0.00
Prudential Discretionary	0.80	-0.07
Prudential UK Equity	0.75	-0.04
Prudential Fixed Interest	0.75	-0.10
Prudential Global Equity	0.75	-0.04
Prudential Index-Linked	0.75	0.08
Prudential Index-Linked Passive	0.65	-0.05
Prudential International Equity	0.76	0.08
Prudential UK Property	1.31	0.26
Prudential With Profits Cash Accumulation	0.80 (estimated)	0.05

Fees are shown as at their latest available date. TERs are as at April 2019 and TCs are as at 30 June 2018.

#### 3.3. Examples to show the cumulative effect of costs and charges

The Trustee is now required to illustrate the effect of the costs and charges typically paid by a member on the value of their fund at retirement (as a "pounds and pence figure"). The Regulations allow the Trustee to exercise its 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 Plan's membership.

The Trustee has taken account of the TM1 statutory guidance when preparing these illustrations.

The following illustrations demonstrate the cumulative effect of the costs and charges over time for investment strategies representative of the Plan's membership, including the longest term to retirement for the youngest member.

The following tables and charts illustrate the effect of the costs and charges at different ages on members' projected retirement pots for two representative members, set out below;

- **Example member 1:** This is based on a typical active member 14 years from a retirement age of 60, with a current fund value of £56,230. Contributions are assumed to be £225 p.a. based on an average employee contribution amount.
- **Example member 2:** This is based on a typical deferred member 13 years from a retirement age of 60, with a current fund value of £19,530. No further contributions are assumed to be paid. The examples are in accordance with DWP guidance that the time period used is the duration for the youngest AVC member to reach NRD.

We have produced illustrations to demonstrate the cumulative effect over time of costs and charges on member fund values in the default fund (Prudential With Profits Cash Accumulation).

Members are also offered a range of self-select funds which, as the table above shows, carry a variety of TERs and TCs. These funds also have a range of investment risk profiles (i.e. different return expectations). We have therefore shown a comparison against a higher investment risk equity fund.



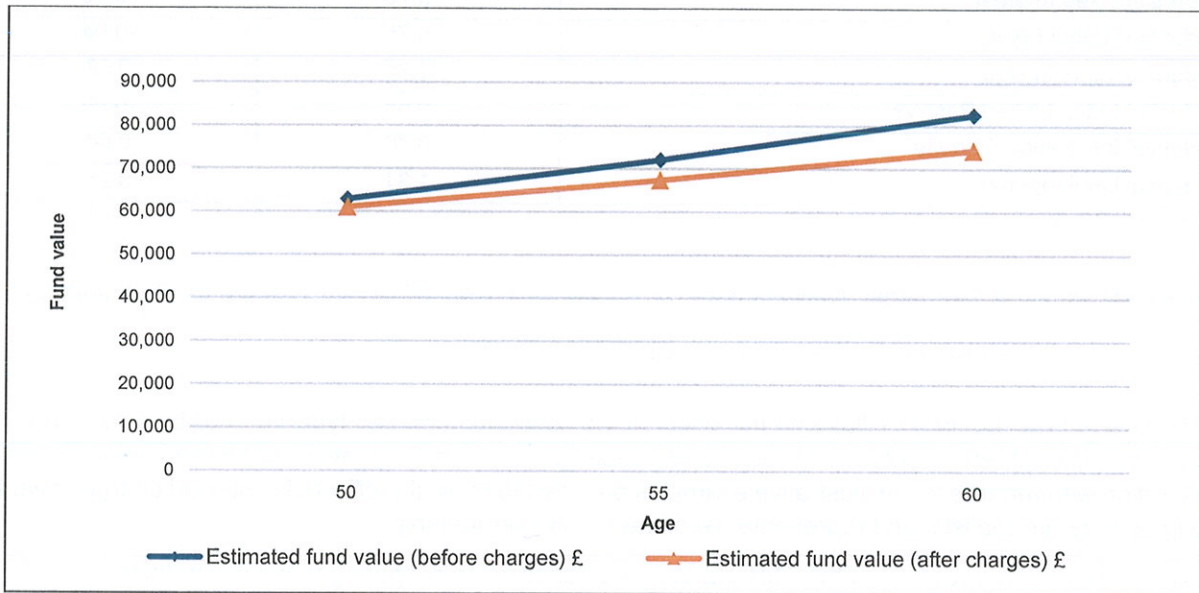
# THE PARAGON PENSION PLAN

## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### Example member 1

The typical active member 14 years from a retirement age of 60, with a current fund value of £56,230 and contributions of £225 p.a.

The graph below shows the difference between the return on the Default Fund (the Prudential With Profits Cash Accumulation) without charges and the estimated return on the Default Fund after the impact of the estimated charges, on cumulative fund values.



The effect of the reduction of charges is more pronounced as fund values are shown against their relevant spending power in today's terms. The Trustee has elected to show a comparison of the impact of costs and charges on the higher returning Prudential Global Equity Fund in the table below.

Age	Default Prudential With Profits Cash Accumulation fund			Prudential Global Equity fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	62,851	60,855	1,996	67,742	65,974	1,768
55	72,077	67,068	5,010	85,213	80,323	4,890
60	82,485	73,797	8,688	106,871	97,528	9,343

# THE PARAGON PENSION PLAN

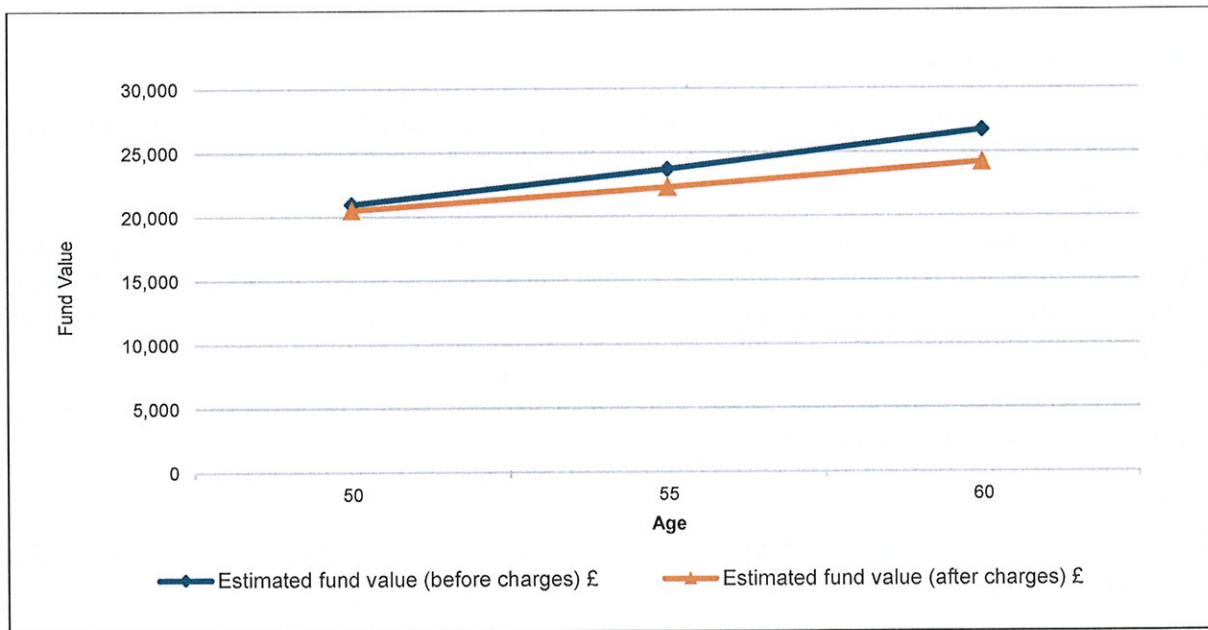
## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### Example member 2

The typical deferred member 13 years from a retirement age of 60, with a current fund value of £19,530. No further contributions are being paid.

The graph below shows the difference between the return on the Default Fund (the Prudential With Profits Cash Accumulation) without charges and the estimated return on the Default Fund after the impact of charges, on cumulative fund values.

The effect of the reduction of charges is more pronounced as fund values are shown against their relevant spending power in today's terms. The Trustee has elected to show a comparison of the impact of costs and charges on the higher returning Prudential Global Equity Fund.



Age	Default Prudential With Profits Cash Accumulation fund			Prudential Global Equity fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	20,994	20,488	506	22,217	21,777	439
55	23,682	22,191	1,491	27,541	26,113	1,429
60	26,715	24,036	2,679	34,141	31,311	2,831



# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

*The following assumptions have been made for the purposes of the above illustrations:*

1. *Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.*
2. *Inflation is assumed to be 2.5% each year.*
3. *No assumption made for real salary growth*
4. *Values shown are estimates and are not guaranteed*
5. *The assumed growth rates reflect 10-year annualised returns (gross of costs and charges) as follows:*
  - *With Profits: 5% p.a.*
  - *Global Equity: 7.0% p.a.*
6. *Contributions are assumed to be £225 each year (for active members only) increasing by inflation up to selected retirement age.*
7. *The charges are based on the 1 year average charge as no information on longer durations is available to the Trustee at this time.*

#### **4. Value for Members assessment**

*The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by AVC section members and the extent to which those charges and costs represent good value for money for members.*

There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Plan advisers, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges deliver good Value for Members. The assessment is relevant to the current membership.

The Trustee has identified the following areas where they believe there is good value for members. These benefits can be financial or non-financial in nature.

##### **• Costs**

- Based on the profile of the Plan's AVC arrangement, we believe that the estimated charges are competitive when compared to current market rates for similar arrangements.
- The level of charges for the AVC arrangement is generally higher than other money purchase workplace savings options in the market (which in broad terms is common for small legacy AVC arrangements). The Trustee will formally review the arrangement with their investment adviser in 2020 as part of the default review.

##### **• Member communications and engagement (including support at retirement)**

- The Plan provides effective communications that are accurate, clear, informative and timely.
- The communications use a variety of communication media, and the Trustee is currently exploring the level of online support functionality for members.
- Plan literature is available from the Plan administrator on request.
- Any Plan-specific changes or announcements are issued by the Trustee when required.

##### **• Investment choices**

- The Plan offers a variety of fund options covering a range of risk profiles and asset classes. The investment funds available have been designed, following advice from the Plan's investment adviser, with the specific needs of members in mind.

# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### 4. Value for Members assessment (continued)

#### • Sound administration

- The Trustee has appointed Aon and Prudential to provide administration services to the Plan and is satisfied that these providers have 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 and the errors are corrected in a timely manner.
- The Trustee concludes that there are processes in place to monitor standards of administration and record-keeping for the AVC arrangement.

#### • Plan governance

- Plan governance covers the time spent by the Trustee to ensure the Plan is run in compliance with the law and regulation, including taking account of the interests of its members.
- The Trustee believes that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes. The Trustee regularly reviews and updates its governance processes and procedures to make sure that the Plan meets industry best practices.
- Given the governance processes and procedures in place and the action taken by the Trustee, the governance arrangements for the Plan are considered appropriate based on the assessment undertaken.

#### • Retirement support

- The Trustee considers that the Plan has suitable retirement support in place which offers members access to support, guidance and information.

Based upon the Trustee's assessment framework, described above, the Trustee believes that the Plan delivers value for its members in all of the key areas.



# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### 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 Pensions Regulator's Code of Practice 7.*

The Trustee Board has a range of skills and experiences including a mixture of Member Nominated and Company Nominated Directors with varying backgrounds.

All Trustee Directors receive structured on-boarding training when they join the Board; the sessions include pensions law, funding and investment. Copies of scheme documents (including the Trust Deed and Rules, Statement of Investment Principles, and other scheme management documentation) are provided as part of the on-boarding training and are reviewed by the Trustee on a regular basis.

All new Trustee Directors are expected to complete the Regulator's Trustee Toolkit. All current Trustee Directors have successfully completed the Regulator's Toolkit. The Trustee Directors 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 every 12 months.

Ongoing evaluation of the Trustee board is carried out which considers, amongst other things, the design, systems, security, administration, risk management, advisers, governance of the Plan and the composition and effectiveness of the board. This is conducted by the Chair of the Trustee with follow-up discussion with the Board as a whole in relation to findings and any proposed actions.

In addition to the knowledge and understanding of the Trustee board, the Trustee Directors have engaged with their appointed professional advisers regularly throughout the year to ensure that they run the Plan effectively and exercise their functions properly. Their professional advisers also attend Trustee meetings. Agenda-specific training and topical updates are provided by the Plan's advisers during Board meetings and during the scheme year, the Trustee has, amongst other things:

- Received specific training on the GMP equalisation ruling following the Lloyds case high court ruling. The Trustee Directors continue to review the impact of the ruling and expect that they will be in a position to determine an equalisation method in 2020/21.
- Received specific training in relation to Environmental, Social, and Governance (ESG) factors when selecting investments. The Trustee Directors have also updated their Statement of Investment Principles (which is appended to this Statement) with their views of ESG factors.
- Reviewed the Plan's AVC investment performance. The Trustee will review the AVCs in more detail in 2020 as part of the formal triennial investment strategy review.
- The Trustee has conducted a review of the Plan's investment managers. As part of the review the Trustee met with some of the individual managers and discussed the different managers' research principles, investment philosophy and underlying investment team competency.
- Received specific training on the Pensions Regulator's annual funding statement.
- A governance checklist is considered at every meeting. This covers the Trustee's core policies and procedures (conflicts, bribery, gifts and hospitality register, IDRPs etc).
- Policies are regularly reviewed by professional advisers and changes are presented to the Trustee. These reviews are scheduled on the Trustee's business plan
- The Trustee invested in a consolidated TD&R and the Plan's legal adviser updates this every time a change is made and issues paper and electronic versions to Trustee Directors.

# THE PARAGON PENSION PLAN

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## CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

### 5. Trustees' Knowledge and Understanding (continued)

- The Plan advisers present topical updates at each quarterly meeting and provide "know how" materials as part of the packs.
- The Trustee Company has been in place since 7 November 2011 with the majority of the Trustee Directors having been in place for six or more years prior, resulting in a build-up of experience and knowledge of the Plan. There has been no change to the trustee board over the period. One of the Trustee Directors, Alan Fletcher, is also a trustee of another scheme and chair of its investment committee.
- The Trustee Directors attend external training sessions and briefings provided by advisers and other third parties.
- The Trustee Directors complete a Trustee effectiveness survey annually. They have annual objectives which are set at the start of each year and relevant training is identified to complete the objectives. Training is also given as and when required when changes in legislation occur and is recorded in training logs following completion of the training.

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

Signed on behalf of the Trustee of The Paragon Pension Plan

  
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Name: Dave Manns, Chair of Trustee

Date: 30th October 2019