

THE PARAGON PENSION PLAN

CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2020

The Chairman presents his statement for the period.

Introduction

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 2019 to 31 March 2020 and is signed on behalf of the Trustee 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 Statement of Investment Principles, (including the Additional Voluntary Contributions ('AVCs') investments) 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 reflected 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 completed on 17 February 2020 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 this review which included consideration of the Plan's membership.

The latest DB Statement of Investment Principles 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 investments and is included in the Appendix to the Trustee's Report and 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 Statement of Investment Principles as set out in the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

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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 scheme. 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 of the Plan 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 are in place with them. The contract and Service Level Agreement (SLA) with Aon was reviewed in 2014 and is updated as needed to ensure it is fit for purpose and reflects the Trustee's needs. SLAs range from 5-10 days depending on the nature of the service being provided.

To enable the Trustee to monitor the processing of core financial transactions, the 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 Service Levels set out in the contract with Aon and over 93% of target delivery times have been met in each quarter.

There have been two member complaints during the period on one transfer value quotation being lost in the post and one transfer value missing the Service level agreement, apologies were issued to both members and no further action was taken. The Trustee investigated the root cause of the complaints and believes that the likelihood of a repeat is very low, so no further remedial action was taken.

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

3. Member Charges and 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.*

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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 on the lower end for 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 make 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 Total Expense Ratio ('TER'). The TER applicable to funds offered is between 0.55% p.a. and 1.28% p.a. as set out in the table below.

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 big sell order by someone else.

The self-select fund range attracted 'implicit costs' in Transaction Costs ('TC') of between -0.12% p.a. and 0.36% p.a. over the 12-month period to 31 December 2019 (this is the latest information available from Prudential), as shown in the table below.

Fund	TER (% p.a.)	TC (% p.a.)
Prudential Dynamic Global Equity Passive	0.64	0.13
BlackRock Aquila Over 15 Years UK Gilt Index	0.72	0.06
Prudential Cash	0.55	0.00
Prudential Discretionary	0.78	0.12
Prudential UK Equity	0.76	0.00
Prudential Fixed Interest	0.76	0.19
Prudential Global Equity	0.76	0.08
Prudential Index-Linked	0.76	0.36
Prudential Index-Linked Passive	0.66	-0.12
Prudential International Equity	0.76	0.18
Prudential UK Property	1.28	0.11
Prudential With Profits Cash Accumulation	0.80 (estimated)	0.09

Fees are shown as at their latest available date. Total Expense Ratios are as at July 2020 and Transaction Costs are as at 31 December 2019.

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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 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 tables and charts below 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 the youngest active member 5 years from a retirement age of 60, with a current fund value of £40,600. Contributions are assumed to be £150 p.m.
- **Example member 2:** This is based on a typical active member 13 years from a retirement age of 60, with a current fund value of £6,230. Contributions are assumed to be £20 p.m.
- **Example member 3:** This is based on a typical deferred member 12 years from a retirement age of 60, with a current fund value of £19,530. No further contributions are assumed to be paid.

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 transaction costs. 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.

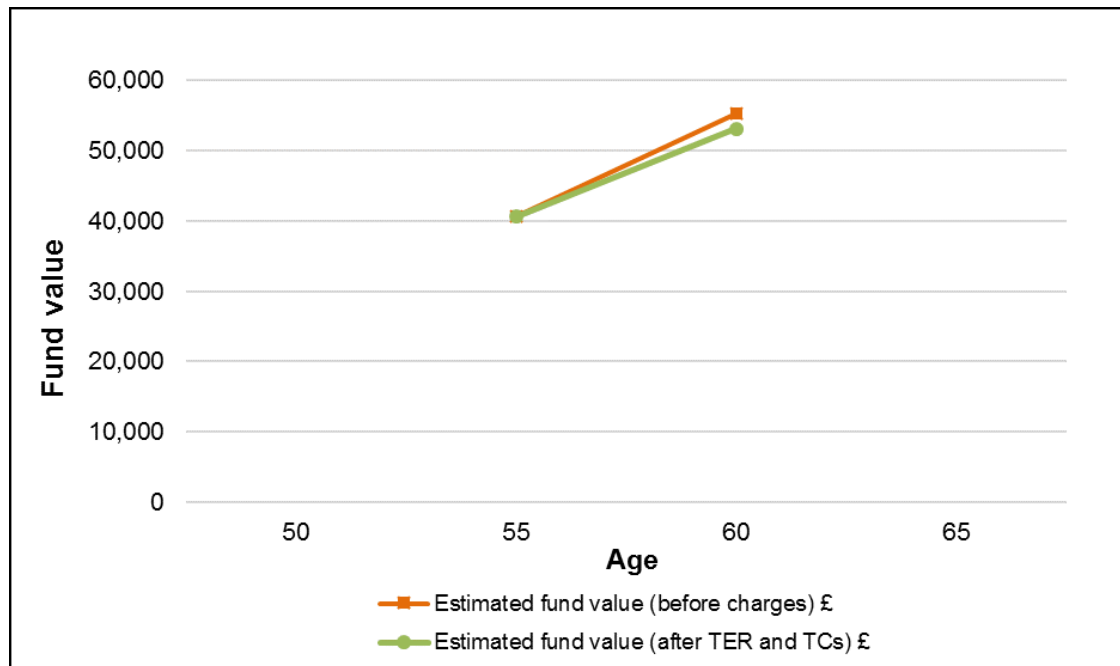
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Example member 1

Based on the youngest active member 5 years from a retirement age of 60, with a current fund value of £40,600. Contributions are assumed to be £150 p.m.

The graph below shows the difference between returns of the Default Fund (the Prudential With Profits Cash Accumulation) without charges and the estimated return of 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 potentially 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 £
55	40,600	40,600	0	40,600	40,600	0
60	55,250	53,140	2,110	60,250	58,230	2,020

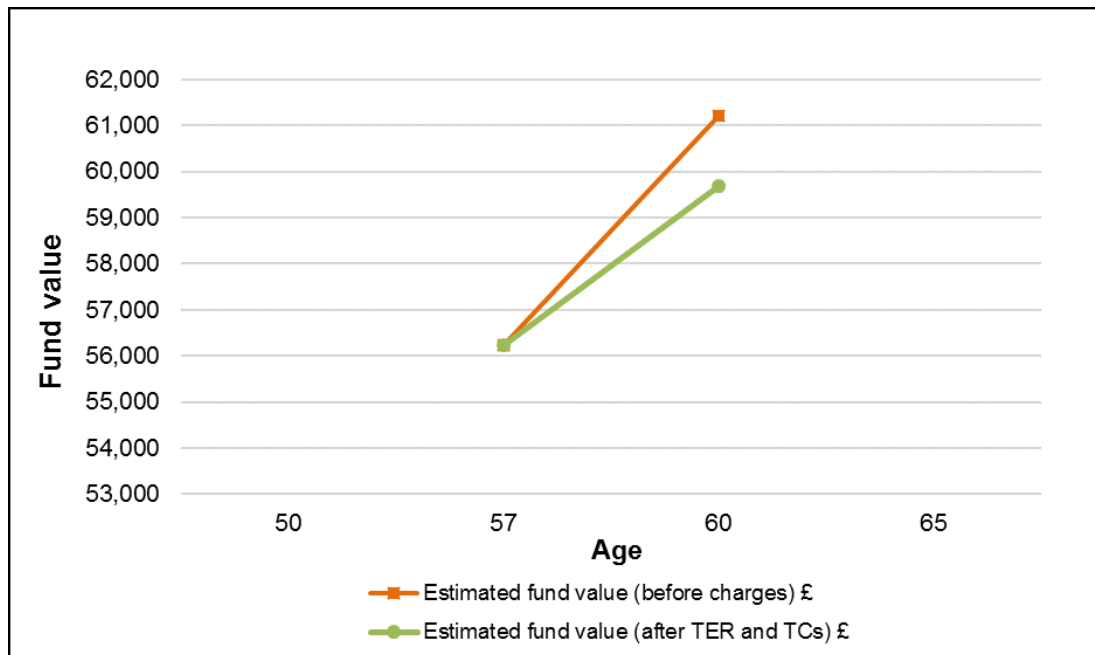
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Example member 2

The typical active member 3 years from a retirement age of 60, with a current fund value of £56,230 and contributions of £20 p.m.

The graph below shows the difference between returns of the Default Fund (the Prudential With Profits Cash Accumulation) without charges and the estimated return of 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 £
57	56,230	56,230	0	56,230	56,230	0
60	61,210	59,680	1,530	64,760	63,340	1,420

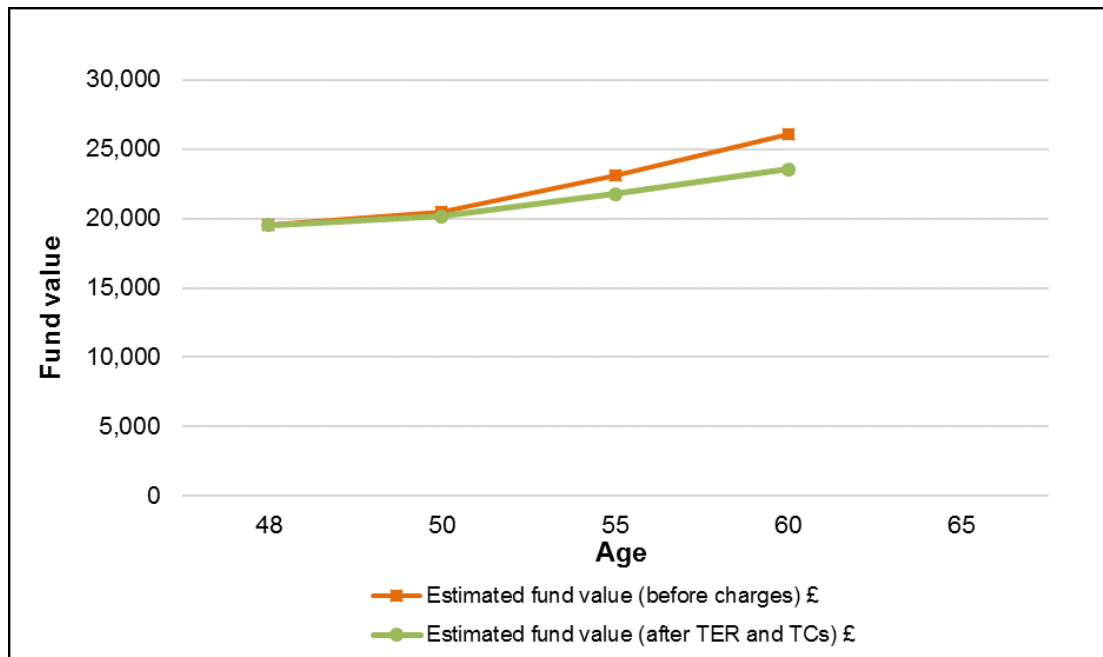
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Example member 3

The typical deferred member 12 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 returns of the Default Fund (the Prudential With Profits Cash Accumulation) without charges and the estimated return of 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 £
48	19,530	19,530	0	19,530	19,530	0
50	20,490	20,150	340	21,280	20,970	310
55	23,120	21,780	1,340	26,380	25,050	1,330
60	26,080	23,550	2,530	32,710	29,920	2,790

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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) are as follows:*
 - *With Profits: 5% p.a.*
 - *Global Equity: 7.0% p.a.*
6. *Contributions are assumed to be £150 per month for the youngest active member and £20 per month for the typical active member 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 for the upcoming year 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.

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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.

Sounds 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.

5. Trustee's 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 Trustee has met the Pension Regulator's Trustee Knowledge and Understanding requirements (as set out under Code of Practice No 7) during the Plan year by:

- Holding four formal quarterly trustee meetings and up to eight informal meetings with professional advisers who provide specialist advice and training sessions on relevant matters
- Developing an appropriate regime for governance of the Plan based on current regulatory guidance


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- Obtaining and reviewing quarterly administration reports from Aon, the Plan administrators;
- Obtaining and reviewing quarterly investment monitoring reporting from our investment advisors, Mercer.
- Updating the Plan's SIP to reflect new legal duties in relation to Environmental, Social and Governance (ESG) investing (demonstrating the Regulator's requirement to understand the principles relating to the funding and investment of occupational DC scheme assets and to have a working knowledge of the current SIP);
- Obtaining an annual audit report from the Plan auditors;
- Reviewing the requirements introduced by the Competition and Markets Authority (CMA) to ensure that investment consultants have objectives, including the creation of a set of objectives (demonstrating the Regulator's requirement to understand the principles relating to the funding and investment of occupational DC schemes and to have a working knowledge of the current SIP);
- Reviewing the structure of the Plan's AVC arrangement; and
- Implementation of the Plan's revised investment strategy

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 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 Trustee board, together with the 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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30-Sep-2020

Date: _____

Dave Manns, Chair of Trustee