

CHAIRMAN'S STATEMENT

NEWBURY INVESTMENTS DC PENSION SCHEME ("THE SCHEME")

ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 31 MARCH 2019

PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES
(SCHEME ADMINISTRATION) REGULATIONS 1996 (THE "REGULATIONS")

1. Introduction

- 1.1 Regulations effective from 6 April 2015 require the Trustee to prepare a statement showing how it has met governance standards in relation to defined contributions benefits. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.
- 1.2 The statement covers five principle areas:
1. *The default investment arrangement*
 2. *Core financial transactions*
 3. *Charges and transaction costs*
 4. *Value for Members assessment, and*
 5. *The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.*

As Chair of the Trustee, it is my pleasure to report to you on how the Trustee has embedded these standards over the period from 1 April 2018 to 31 March 2019.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be obtained on-line at [www.newburyinvestments.co.uk](#). If you choose to use a financial adviser, please be sure to check their area of expertise and their charges before making any commitments.

2. Default Investment Arrangement in the Money Purchase Section

- 2.1 A copy of the Scheme's latest Statement of Investment Principles ("SIP") dated June 2016 is attached. The SIP has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. The SIP covers our aims and objectives in relation to the default investment arrangements as well as our policies relating to matters such as risk and diversification. In addition to the default funds and the wider fund range, the SIP covers alternate investment choices under the Scheme, covering a range of funds that our members can choose which was designed with their needs in mind.
- 2.2 The default investment arrangement currently follows a pre-set investment route that transitions members' savings over the 8 years prior to the specified retirement date from a Growth fund (a combination of global equities and a diversified fund) to a mix of cash (25%), corporate bonds (25%), and a diversified fund (50%) at retirement.
- 2.3 The default lifestyle path's growth phase invests predominantly in equities, with modest allocations to property, bonds and cash. Overall these investments are expected to provide long term (above inflationary) growth with some protection against inflation erosion, albeit with volatility. Long-term returns in excess of earnings inflation are generally required for members' attaining an adequate income in retirement. Younger members can withstand the potential downside of equities as they have sufficient time for markets to recover.
- 2.4 As a member's invested fund grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a strategy that seeks to reduce risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over the 8-year period prior to a member's retirement date. Also, falls in the values of equity investments could potentially inflict significant losses to members' savings at a time when they have insufficient years of accumulation remaining to recover from such losses, particularly if they choose to make early withdrawals from savings. Investments are switched into a mix of less volatile assets and a diversified growth fund to match the targeted retirement outcome.
- 2.5 The Trustee reviews the performance of all funds available to members and risk based reviews are reported on a quarterly basis. An investment sub-committee is in place to monitor the default investment strategy and wider fund range, and brings any issues or proposals to the full Trustee Board which is collectively responsible for any decisions. Investment is a standing agenda item at the main Trustee meetings.
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- 2.6 A review of the Scheme's investment strategy, with particular focus on the default investment strategy was carried out in January 2019. The review involved analysis of the profile of members age and pot sizes to help determine whether other de-risking patterns and at-retirement allocations would be more suited to members' needs. The key areas that the review considered were:
- A review of the three lifestyle glidepaths that target income drawdown (the default), annuity purchase and cash lump sum;
 - A review of the Growth portfolio within the lifestyle strategies, with particular focus upon the active diversified growth component;
 - The suitability of the 'At retirement' portfolios within the lifestyle strategies;
 - The appropriateness of the self-select fund range options available to members.
- 2.7 The Trustee is continuing to work with their investment adviser regarding the approach and timescale for implementing changes following this review, but has drawn the following conclusions:
- A default targeting income drawdown at retirement remains appropriate for the membership, and the 8 year switching period continues to be reasonable;
 - A higher allocation to growth assets will be introduced to the Active Diversified Growth Fund (which is a component of the growth phase of the lifestyle strategies including the default);
 - A specialised income drawdown fund will be introduced to the default glidepath and the allocation to the Corporate Bond Fund will be removed;
 - The glidepaths targeting annuity purchase and cash lump sums continue to be appropriate for the aims and objectives of these investment strategies;
 - A specialised income drawdown fund will also be made available as a self-select option for members.

3. Core Financial Transactions

- 3.1 As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. This includes:
- Investment of contributions paid to the Scheme;
 - Transfer of members' assets into and out of the Scheme;
 - Transfers of members' assets between different investment options available in the Scheme; and
 - Payments from the Scheme to, or in respect of, members.
- 3.2 The Payment Schedule sets out timescales for all participating employers to remit monthly contributions to the Scheme in accordance with legislative requirements. Once received, contributions are invested in accordance with the timescales set out in the administration agreement with Mercer Limited (the Scheme's Administrators).
- 3.3 The Trustee receives administration reports produced by the Administrator which are reviewed by the Trustee quarterly, enabling it to monitor that the requirements for the processing of financial transactions are being met.
- 3.4 The service level agreements with the Administrator set out the approach (including timescales) regarding the transfer of members' assets into and out of the Scheme, the transfer of members' assets between different investment options available in the Scheme and payments from the Scheme to, or in respect of, members. From 1 April 2018 to 31 March 2019 an overall service level of 99% was achieved. The service level standards are reviewed periodically to ensure they remain appropriate and meet legislative requirements.
- 3.5 As a wider review of the Scheme Administrator in general, the Administrator employs an independent auditor to prepare an annual report on their internal controls (AAF01/06/ ISAE 3402) which the Trustee has sight of.
- 3.6 The Trustee appoints an independent auditor, Grant Thornton UK LLP, to carry out an annual audit of the Scheme, including the material financial transactions that have taken place during the Scheme year. The auditors carry out spot checks to ensure that contributions to the Scheme or payments made by the Scheme are paid in accordance with the Scheme's rules. Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the period to which the Statement relates.

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4. Charges and Transaction Costs

- 4.1 As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the default investment strategy as well as funds available as self-select options to members, and assess the extent to which the charges and costs represent good value for members.
- 4.2 The range of the levels of charges and transaction costs applicable to the default arrangement during the period are detailed in this section. In relation to transaction costs, we note that when buying and selling investments, transaction costs can be incurred. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.
- 4.3 Charges relating to investment management are deducted from members' funds. The Scheme is used as a qualifying arrangement for auto enrolment and as such must comply with regulations on charge controls introduced from April 2015. The Trustee can confirm that the default investment arrangement remains within the charge cap of 0.75% p.a.
- 4.4 The tables below show the total expense ratio (TER) and transaction costs in each of the funds underlying the Scheme's current default lifestyle arrangement. The overall charge being deducted from a member's fund, if in the default lifestyle arrangement, will reflect the member's allocations in each of the underlying funds. The TER is at its highest during the growth phase, falling during the 8 years prior to the Selected Retirement Age, to reflect the automated transition of assets into less expensive funds.

Funds used within the Default Lifestyle Arrangement	TER (% pa)	Transaction Cost (% pa)
Passive Global Equity	0.148	0.054
Active Diversified Growth	0.837	0.231
Passive Corporate Bond	0.116	0.016
Cash and Money Market	0.161	-0.025

The following provides information on the charges applicable to the other funds offered as self-select options.

Self-Select Funds	TER (% pa)	Transaction Cost (% pa)
Legacy Passive Global Equity	0.125	0.001
Passive Over 15 Year Fixed Interest Gilt	0.104	-0.027
Passive Over 5 Year Index-Linked Gilt	0.104	-0.010
Annuity Targeting Pre-Retirement	0.140	0.016
Active Property	0.970	-0.059

Source: Zurich (March 2019)

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5. Impact of Costs and Charges

5.1 In accordance with regulation 23(1) (ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance provided has been considered when providing these examples. The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has based this on an average member age of 42, using a starting pot size of £18,000 and assumes an overall contribution level of 9%. An assumed starting salary of £30,700 has been used, with a 2.50% salary increase per year. Investment growth per annum is in line with that used for the annual benefit statements.

Projected Pot sizes in Today's Money (£)										
Year End	Most Popular Fund/ Default Arrangement		Most Expensive Fund		Highest Expected Growth		Lowest Expected Growth		Least Expensive Fund	
	Drawdown Strategy		Active Diversified Growth Fund		Passive Global Equity Fund		Cash and Money Market Fund		Passive Over 15 Year Fixed Interest Gilt Fund	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	21,279.74	21,144.59	21,232.78	21,005.95	21,326.70	21,283.64	20,575.01	20,541.89	20,575.01	20,553.62
2	24,647.47	24,353.04	24,544.40	24,052.31	24,750.77	24,656.57	23,124.90	23,054.92	23,124.90	23,079.69
3	28,105.56	27,626.65	27,936.80	27,139.64	28,275.05	28,121.20	25,649.92	25,539.44	25,649.92	25,578.51
4	31,656.43	30,966.74	31,411.94	30,268.49	31,902.49	31,680.04	28,150.30	27,995.75	28,150.30	28,050.39
5	35,302.56	34,374.66	34,971.84	33,439.40	35,636.09	35,335.65	30,626.29	30,424.18	30,626.29	30,495.60
10	55,054.12	52,480.91	54,116.86	49,945.14	56,008.63	55,159.79	42,648.56	42,159.09	42,648.56	42,331.70
15	77,601.33	72,501.85	75,713.35	67,590.85	79,542.23	77,829.65	54,095.71	53,242.97	54,095.71	53,543.10
20	101,812.76	93,285.07	100,075.20	86,455.28	106,727.35	103,753.71	64,995.25	63,711.93	64,995.25	64,162.77
23	114,473.73	103,712.97	116,166.17	98,393.70	125,023.34	121,061.81	71,283.07	69,712.43	71,283.07	70,263.61

The TER and transaction costs for the default and most popular fund, the drawdown lifestyle strategy changes depending upon how close the member is to retirement. De-risking for Scheme members begins 8 years before retirement. The underlying asset allocation for the lifestyle option changes over the de-risking period at the end of each year end prior to a member's target retirement date.

Notes:

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. Starting pot size is assumed to be £18,000 and future contributions of 9% have been assumed
3. Starting salary is assumed to be £30,700 with an assumed increase of 2.50 % per year.
4. Values are estimates and are not guaranteed
5. The projected growth rates for each fund are as follows:
 - a. Drawdown Strategy (Default arrangement): between 2.68% and 0.98% p.a gross real return above inflation.
 - b. Active Diversified Growth Fund (Most Expensive Fund): 2.44 % p.a. gross expected real return above inflation.
 - c. Passive Global Equity Fund (Highest Expected Growth): 2.93 % p.a. gross expected real return above inflation.
 - d. Cash and Money Market Fund (Lowest Expected Growth Fund): -0.98 % p.a. gross expected real return above inflation.
 - e. Passive Over 15 year Fixed Interest Gilt Fund (Cheapest Fund): -0.98 % p.a. gross expected real return above inflation.

Due to the diverse Scheme demographics, a further illustration is set out below to reflect the position for younger members of the Scheme.

This is based on a member age of 22, using a starting pot size of £2,400 and assumes an overall contribution level of 9%. An assumed starting salary of £21,600 has been used, with a 2.50% salary increase per year.

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Projected Pot sizes in Today's Money (£)											
Year End	Most Popular Fund / Default Arrangement		Most Expensive Fund		Highest Expected Growth		Lowest Expected Growth		Least Expensive Fund		
	Drawdown Strategy		Active Diversified Growth Fund		Passive Global Equity Fund		Cash and Money Market Fund		Passive Over 15 Year Fixed Interest Gilt Fund		
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	
1	4,432.18	4,404.03	4,424.17	4,378.91	4,440.19	4,431.22	4,311.88	4,304.94	4,311.88	4,307.39	
2	6,518.88	6,448.76	6,497.72	6,380.40	6,540.09	6,517.67	6,205.10	6,188.25	6,205.10	6,194.21	
3	8,661.57	8,535.02	8,621.84	8,410.84	8,701.44	8,660.85	8,079.86	8,050.19	8,079.86	8,060.68	
4	10,861.75	10,663.64	10,797.76	10,468.57	10,926.06	10,862.31	9,936.32	9,890.99	9,936.32	9,907.02	
5	13,120.95	12,835.48	13,026.76	12,553.98	13,215.79	13,123.62	11,774.67	11,710.90	11,774.67	11,733.44	
10	25,359.34	24,374.50	25,014.24	23,409.24	25,709.79	25,386.60	20,700.88	20,505.25	20,700.88	20,574.27	
15	39,329.96	37,133.74	38,536.68	35,014.24	40,142.38	39,409.90	29,200.08	28,811.70	29,200.08	28,948.50	
20	55,277.98	51,242.25	53,790.63	47,420.74	56,814.36	55,446.21	37,292.69	36,657.32	37,292.69	36,880.74	
30	94,265.38	84,092.86	90,408.30	74,863.52	98,320.29	94,755.21	52,335.03	51,066.94	52,335.03	51,511.35	
40	142,868.22	122,430.44	137,003.92	108,227.91	153,705.80	146,159.66	65,972.61	63,922.07	65,972.61	64,638.35	
43	154,734.10	131,044.48	153,316.99	116,483.72	173,685.27	164,468.81	69,809.90	67,501.04	69,809.90	68,306.78	

The TER and transaction costs for the default and most popular fund, the default lifestyle strategy changes depending upon how close the member is to retirement. De-risking for Scheme members begins 8 years before retirement. The underlying asset allocation for the lifestyle option changes over the de-risking period at the end of each year end prior to a member's target retirement date.

Notes:

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. Starting pot size is assumed to be £2,400 and future contributions of 9% have been assumed
3. Starting salary is assumed to be £21,600 with an assumed increase of 2.50 % per year.
4. Values are estimates and are not guaranteed
5. The projected growth rate for each fund are as follows:
 - a. Drawdown Strategy (Default arrangement): between 2.68% and 0.98% p.a gross real return above inflation.
 - b. Active Diversified Growth Fund (Most Expensive Fund): 2.44 % p.a. gross expected real return above inflation.
 - c. Passive Global Equity Fund (Highest Expected Growth): 2.93 % p.a. gross expected real return above inflation.
 - d. Cash and Money Market Fund (Lowest Expected Growth Fund): -0.98 % p.a. gross expected real return above inflation.
 - e. Passive Over 15 year Fixed Interest Gilt Fund (Cheapest Fund): -0.98 % p.a. gross expected real return above inflation.
- 5.2 The Trustee acknowledges the requirement to publish these illustrations on a website and this page will be available in time for the deadline of 7 months following the Scheme year end. The 2019 benefit statements will include the web address in order to inform members where they can access this information.
- 6. Value for Members**
 - 6.1 In accordance with regulation 25(1)(b), the Trustee is required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.
 - 6.2 The Trustee has assessed the extent to which the charges set out above represent good value for members and has concluded, following receipt of a report from their DC advisers, that the Scheme offers good value for money relative to peers including other pension Schemes of a similar size and nature (using data from Mercer, the Pensions Regulator and other public surveys) and relative to options available to the Trustee with alternative investment managers and providers.

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- 6.3 The Trustee conducted a detailed Value for Money assessment in order to arrive at this conclusion, incorporating consideration of:
- Annual management charges
 - Net cost of performance
 - Fund range available to members
 - Investment manager and platform provider ratings
 - Additional services available to members, including at retirement options, services and member tools.
- 6.4 In 2019, the Trustee assessed the extent to which the charges under the Scheme represent good value for members and concluded that the Scheme offers good value for money relative to peers and alternative arrangements that are available. The reasons underpinning this conclusion include:
- The Trustee is satisfied that Mercer's administration team has provided a good service during the Scheme year
 - Charges on funds have been assessed by our advisors as comparing favourably with those of peer funds for asset size.
 - The performance of the Scheme's funds over the period covered by this statement has been reasonable relative to the benchmark set by the Trustee. Where performance of individual funds has been markedly below benchmarks, the Trustee has received advice on alternative investment options.
- 6.5 In other areas the assessment found that the Scheme offers good value for money across the range of additional features for members, including scheme governance and management, administration, and communications.
- 6.6 Additionally, the Company pays for administration and member communication costs associated with operating the Scheme, which further enhances the value that members receive.
- 6.7 The non-financial benefits of membership were also considered and included (amongst other things): the efficiency of administration processes and the extent to which Mercer as administrator met its service level agreements for the year; the communications delivered to members; and the quality of Scheme governance.
- 6.8 The Trustee will continue to monitor the administration and performance of the Scheme's investment funds.

7. Trustee Knowledge and Understanding

- 7.1 In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustee is required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.
- 7.2 In October 2018 the Trustee attended a full day's training, with a particular focus on:
- Retirement options available to members,
 - Considerations and the advisory process for DB to DC transfers,
 - Detailed updates on current DC pension issues.
- 7.3 The Trustee meetings held in the period covered by this statement were attended by the Scheme's advisers. Training and advice delivered as part of the business at these meetings is incorporated by the Trustee into their decision making processes.
- 7.4 The Trustee is conversant with, and has a working knowledge of, the Scheme documents such as the Trust Deed and Rules. The Trustee has demonstrated conversance by exercising its discretionary power relating to death cases and transfers into the Scheme over the Scheme year, as well as a review of its data policy to reflect GDPR requirements and through reviewing the member nominated director policy. If there are any ambiguities over the interpretation of the Rules legal advice is sought from the Scheme's legal advisors.
- 7.5 The Trustee is conversant with, and has a working knowledge of, the current SIP. The Trustee undertake regular training on investment matters and review the investments held by the Scheme at each meeting. The Trustee has sufficient knowledge of investment matters to be able to challenge their advisors. During the Scheme year the Trustee demonstrated conversance by making decisions relating to the future investment strategy of the Scheme, following an investment strategy review in January 2019.

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- 7.6 The Trustee receives professional advice from Mercer to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules, and the relevant skills and experience of Mercer is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustee along with their own experience allows them to properly exercise their function as a trustee body.
- 7.7 The Trustee also reviews and assesses, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.
- 7.8 The Trustee is required to have a robust training programme in place for newly appointed trustees. For the Scheme, upon appointment, a Trustee is required to undertake completion of the Pensions Regulator's online training programme. The Trustee toolkit is expected to be completed within six months of appointment.
- 7.9 The Trustee believes that the best run pension schemes utilise the combined skill and knowledge of both the Trustee and their professional advisors. The relevant skills and experience of those advisors are key criteria when evaluating advisor performance and selecting new advisers. Additionally, the following measures have applied during the period:
- ◆ The Trustee's professional advisors attend their formal meetings;
 - ◆ The Trustee board contains trustees with wide ranging skills and experience
 - ◆ The Trustee receives briefings from their advisors on all legislative and regulatory developments at each meeting;

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

Signed for and on behalf of the Trustees of the Newbury Investments DC Pension Scheme

Date 24 OCTOBER 2019.

By



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Chair of Trustees