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

1. Introduction

An annual DC Governance Statement is required by law to show how the DC funds within the Scheme meet required governance standards. This Statement covers the period from 6 April 2019 to 5 April 2020.

Following the transfer out of DC funds held in respect of Core only members in the Scheme year ending 5 April 2018, all deferred members who remain in the Scheme have Defined Benefit ("DB") pension entitlements, known as Top-Up benefits. These Top-Up benefits have a guarantee (the "DC Underpin") that the benefits will not be less than the value of the pension secured by funds representing the (former) Protected Rights that members accumulated in the Scheme, to which investment returns are added. These investment returns take the form of an annual bonus which will continue to be calculated in the same way in the future as they have been in recent years (consistent with the investment returns historically added to Core DC funds). It is expected that the DC Underpin could "bite" for one or more members and it is therefore necessary to cover these benefits as part of this Statement.

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

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

For the year ended 5 April 2020 the method used for calculating investment returns for notional DC funds underpinning the Top-Up benefits was as follows:

(a) At 31 December 2019 the rate of investment return on the Scheme's assets was calculated based on information provided by the Scheme's investment advisers XPS Investment Limited.

(b) The annual bonus (investment return) added to notional DC funds for the year to 5 April 2020 is taken as the average investment return over the previous three calendar years.

(c) When a member retires, leaves or dies during the year an additional interim bonus is added. This is equal to 1/12th of the average investment return over the two previous calendar years multiplied by each complete month since the previous 6th April to date of retirement, leaving or death. For the year commencing 6 April 2020 this interim bonus is 3.6% per annum.

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

Year ended 5 April	Bonus declaration %
2016	10.2
2017	5.6
2018	7.9
2019	5.9
2020	7.3

These returns have been based on the assets held by the Scheme which have been invested predominately in company shares (equities) and other growth assets. Over the year ending 5 April 2020, the Scheme's gilt investments have been held in funds managed by Legal & General Investment Management, with return-seeking assets held in funds managed by both Legal & General Investment Management and Columbia Threadneedle Investments. At 5 April 2020 the Scheme's invested assets were held as follows:

	Value £m	Percentage of assets %
Fixed interest gilts	8.7	11
Equities	32.2	42
Diversified growth funds	36.3	47
Total invested assets at 5 April 2020	77.2	100

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

The Trustee generally carries out a full investment strategy review following the triennial valuation of the Scheme. The last full investment strategy review was carried out at the Trustee meeting on 2 February 2017. Following the completion of the actuarial valuation as at 5 April 2019, the Trustee is considering its long-term objectives in relation to the Scheme and what actions it needs to take to achieve this. This will include discussions around both the funding and investment strategies.

During the year ended 5 April 2020 the Trustee met with their investment managers and advisers regularly and received quarterly investment reports to help monitor investment performance.

3. Additional Voluntary Contributions ("AVCs")

The Trustee has AVC policies with Aviva and Utmost Life and Pensions, with the policies held with the latter having been transferred from Equitable Life on 1 January 2020. There are no contributing AVC members and there is no default strategy. AVCs are invested in a range of funds in different asset classes and members have the option to switch investments between these funds.

The Trustee keeps the investment of AVCs under review. Upon the transfer of the AVC policies from Equitable Life to Utmost Life and Pensions, the Trustee considered, based on advice, the appropriate investment funds in which to invest. The Aviva investments were last reviewed in detail in 2014.

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

Prior to 1 January 2020, some DB Section members had With-Profits investments with Equitable Life ("the Society"). On 15 June 2018, the Society announced that it had entered into an agreement to transfer the Society and almost all of its policies to Utmost Life and Pensions (formerly Reliance Life), part of the LCCG Group. The proposal was subsequently agreed by Society policy holders and received approval from the High Court in December 2019. From 1 January 2020, the funds were transferred to Utmost Life and Pensions and converted into unit-linked investments in line with the default investment strategy provided by Utmost Life and Pensions. An uplift was applied to members' funds and the guaranteed investment return previously applying under the With-Profits policies ceased to apply.

Further details can be found on the Society's website at **www.equitable.co.uk** or on Utmost Life and Pensions' website at **www.utmost.co.uk**.

4. General points on Scheme governance for DC funds

(Extracts from the Statement of Investment Principles dated September 2019 are shown in italics. A full copy of the Statement of Investment Principles is included as an appendix to this statement.)

Aims and objectives

As the investment returns credited to the notional funds underlying the DC Underpin are determined by the returns achieved on the total assets (i.e. those backing the DB benefits and forming the underlying DC

Underpin), the overall investment objectives for the Scheme apply equally to the DC Underpin and DB funds.

The Trustees aim to invest the assets of the Scheme prudently with a view to ensuring that the benefits promised to members can be met from the assets of the Scheme...

... the Trustees will seek to benefit from the long term nature of the liabilities and the strong employer covenant with a view to achieving investment returns which will reduce the Scheme's reliance on employer contributions in the long term. The Trustees will also pay due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy.

Realisation of investments

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

Reviews of the current strategy of allocating bonuses

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

Investing in members' best interests

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

Investment returns

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

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

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

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

Processing of financial transactions

The Regulator defines "core financial transactions" to include investment of contributions, transfers into and out of the Scheme, switches between the different investment funds that are available, and payments out of the Scheme.

The administration of the DC funds including AVCs over the year was carried out by XPS Administration. When a member retired, transferred out or died in deferment, XPS Administration calculated the accumulated notional funds including the interim bonus and determined whether the DC Underpin applied to the member's benefits. If the DC Underpin were to apply, XPS Administration would provide details of the options available to the member. Part of the funds could normally be taken as a cash sum with the balance being used to secure a pension with an insurance company outside the Scheme. Over the year ending 5 April 2020, the DC Underpin did not apply for any members taking their benefits. If a member with AVCs retired or transferred out of the Scheme, XPS Administration would liaise with the AVC provider to provide details to the member of the relevant options. XPS Administration would then arrange for the disinvestment of the AVCs and payment to the member as appropriate.

XPS Administration adopted internal control procedures that were designed to ensure that core financial transactions were processed promptly and accurately and this was the case during the period. The Trustee had no concern over the administration of financial transactions during the Scheme year.

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

Charges and transaction costs

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

Transaction costs were variable costs associated with investment trading and were incurred when investments were bought and sold as part of the ongoing smooth running of each fund. They were an essential part of generating investment returns on behalf of Scheme members and managing risk. Given that the underlying assets predominantly relate to the DB benefits and only form a DC benefit in the event that the DC Underpin bites, it is not possible to accurately estimate the transaction costs relating specifically to the DC funds within the Scheme. However, the overall management and transaction costs for the Scheme's investments totalled just under £58,000 over the period (equal to around 0.07% of the Scheme's total assets). The transaction costs split by fund are set out in the table below.

As noted above, the investment managers made investment management charges which depended on the underlying asset classes in which they invested. The charges applying to each fund in which the Scheme's assets were invested over the year ending 5 April 2020 are set out in the table below.

Fund	Annual fund charge (total expense ratio)	Transaction costs over year to 5 April 2020 (% of assets)
Legal and General Investment Management		
• 0 to 5 Year Gilts Index Fund	0.075% pa	0.015%
• Dynamic Diversified Fund	0.395% pa	0.132%
• World Equity Index Fund	0.115% pa	0.004%
• World Equity Index Fund (GBP Hedged)	0.135% pa	0.090%
Columbia Threadneedle • Dynamic Real Return Fund	0.635% pa	0.072%

The charges on the AVC funds, as provided by Equitable Life, Utmost Life and Pensions and Aviva, are set out below.

Equitable Life has confirmed that the transaction costs applying over the period to 31 December 2019 (at which point funds were transferred to Utmost Life and Pensions) due to buying and selling of underlying assets were approximately 1.036% per annum of assets, with further charges of approximately 0.004% per annum in relation to stocklending costs.

Utmost Life and Pensions has confirmed that there were no transaction costs incurred upon the transfer of funds from Equitable Life. The policies held with Utmost Life and Pensions are invested in a "lifestyling" strategy, whereby the combination of investments between different investment funds (detailed below) gradually changes as members approach retirement. Utmost Life have confirmed that there are no charges associated with the switching between these underlying funds.

However, transaction costs can also arise due to buying and selling of underlying assets within the investment funds. For the period to 31 March 2020, these were approximately 0.11% per annum, 0.36% per annum and 0.07% per annum of assets for the Multi-asset (moderate), Multi-asset (cautious) and UK Secure Cash funds respectively. There were no stocklending costs for these assets over the period to 31 March 2020.

Aviva have confirmed that there were no transaction costs over the period.

Fund	Annual fund charge (total expense ratio)
Equitable Life With-Profits fund (until 31 December 2019)	1.5% pa *(inclusive of 0.50% pa for the cost of providing the guarantees)*
Utmost Life and Pensions (from 1 January 2020)	
Multi-asset (moderate)	0.75% pa
Multi-asset (cautious)	0.75% pa
UK Secure Cash	0.50% pa
Aviva unit linked funds	
Lion Trust UK Ethical	0.60% pa
Deposit	0.60% pa
Global Equity	0.60% pa
UK Equity	0.60% pa
Aviva With-Profits fund	0.60% pa

Value for Members

The Trustee is required to assess the extent to which the (ongoing) charges and transaction costs set out above represent good value for members. The Trustee believes that the lack of an administration charge payable by members has represented good value to members and that the investment management charges were within the range expected for the asset classes it manages. Overall, the Trustee believes the bonus system has worked well and in general has given good value for members. As part of the transfer of AVC funds from Equitable Life to Utmost Life and Pensions, the Trustee considered a number of factors relating to the new funds, including fund charges and the potential value for members. Now that the transfer is complete, a more formal review of the value for members offered by all the AVC funds will be undertaken by the Trustee in due course.

Trustee knowledge and understanding

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

- Regular review of knowledge and understanding and associated training needs at Trustee meetings.
- Appropriate training undertaken at or outside of regular Trustee meetings. For example, the Chair of the Trustee received training on actuarial valuations in the context of the Scheme in July 2019 in order to assist with the actuarial valuation as at 31 March 2019.
- All Trustee Directors are conversant with the Trust Deed and Rules and key Scheme documents including their policies, and the Statement of Investment Principles. The Trustee received training from the Scheme lawyers in February 2019 on the Trust Deed and Rules, and take advice relating to this as and when required for the purpose of carrying out their duties.
- Review of reports monitoring the performance of the funds under management by the Scheme's investment manager(s).
- The Trustee Directors are conversant with the governance and operations of the Scheme. A review of reports monitoring the administration service and any administration issues arising is undertaken at least twice a year.

The Trustee has also appointed professional advisers who provide advice and support to ensure the Trustee is able to manage the Scheme properly. Therefore the Trustee is comfortable that it has sufficient knowledge and understanding of the law relating to pensions and trusts, sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes, and that the Trustee Directors' combined knowledge and understanding, combined with the advice it receives, enables it to properly exercise its functions.

Social, environmental or ethical considerations

The Trustees have determined their approach to financially material considerations over the appropriate time horizon of the investments – including environmental, social and corporate governance ("ESG") factors - by acknowledging that there can be risks relating to them. The Trustees have delegated the ongoing monitoring and management of ESG risks and those related to climate change to the Scheme's investment managers. The Trustees require the Scheme's investment managers to take ESG and climate change risks into consideration within their decision-making, recognising that how they do this will be dependent on factors including the characteristics of the asset classes in which they invest.

The Trustees will seek advice from the Investment Adviser on the extent to which their views on ESG and climate change risks may be taken into account in any future investment manager selection exercises. Furthermore, the Trustees, with the assistance of the Investment Adviser, will monitor the processes and operational behaviour of the investment managers from time to time, to ensure they remain appropriate and in line with the Trustees' requirements as set out in this Statement.

The Trustees have delegated responsibility for the exercise of rights (including voting rights) attached to the Scheme's investments to the investment managers and encourage them to vote whenever it is practical to do so on financially material matters including those deemed to include a material ESG and/or climate change risk in relation to those investments.

Further, the Trustees' policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

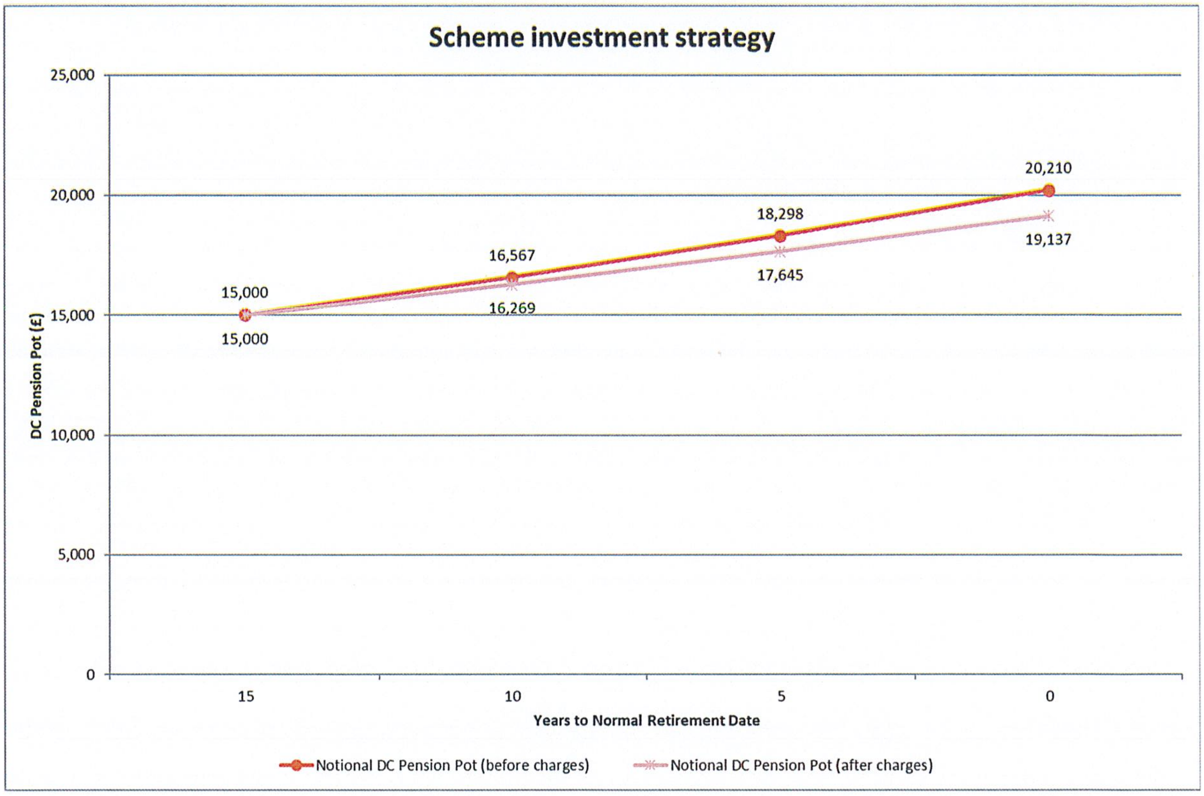
5. Illustration of charges levied on members

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

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

Fund	Expected return
Legal and General Investment Management	
• 0 to 5 Year Gilts Index Fund	Gilt yields ***(0.35% per annum)***
• Dynamic Diversified Fund	Gilt yields plus 4.5% per annum ***(4.85% per annum)***
• World Equity Index Fund	Gilt yields plus 5.0% per annum ***(5.35% per annum)***
• World Equity Index Fund (GBP Hedged)	Gilt yields plus 5.0% per annum ***(5.35% per annum)***
Columbia Threadneedle	
• Dynamic Real Return Fund	Gilt yields plus 4.2% per annum ***(4.55% per annum)***

- Projected pension pot values are shown in terms of current prices, i.e. the actual figures will be higher to the extent that there is future inflation. Inflation is assumed to be 2.5% per annum.
- Charges (including transaction costs) are assumed to remain at the same level (as a percentage of assets) over the period of the projection as they were for the year ending 31 March 2020.



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

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

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

Signed for and on behalf of the Trustee of the Scheme

.... 17 September 2020 ....

Chairman of the Trustee Date

Appendix – fund projections

Provider	Various		Aviva		Aviva	
Fund	In line with current investment strategy		Global Equity Fund		UK Equity Fund	
Investment return (pa)	4.56%		5.35%		5.35%	
Real investment return (net of inflation at 2.5% pa) (pa)	2.01%		2.78%		2.78%	
Charges (pa)	0.36%		0.60%		0.60%	
Years from now	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)
0	15,000	15,000	15,000	15,000	15,000	15,000
1	15,301	15,246	15,417	15,325	15,417	15,325
2	15,608	15,495	15,846	15,657	15,846	15,657
3	15,922	15,749	16,286	15,997	16,286	15,997
4	16,241	16,007	16,739	16,343	16,739	16,343
5	16,567	16,269	17,205	16,698	17,205	16,698
6	16,900	16,535	17,683	17,060	17,683	17,060
7	17,239	16,806	18,175	17,429	18,175	17,429
8	17,585	17,081	18,680	17,807	18,680	17,807
9	17,938	17,360	19,199	18,193	19,199	18,193
10	18,298	17,645	19,733	18,587	19,733	18,587
11	18,665	17,934	20,282	18,990	20,282	18,990
12	19,040	18,227	20,846	19,402	20,846	19,402
13	19,422	18,525	21,425	19,822	21,425	19,822
14	19,812	18,829	22,021	20,252	22,021	20,252
15	20,210	19,137	22,633	20,691	22,633	20,691

Provider	Aviva		Aviva		Aviva	
Fund	Aviva With-Profits Fund		Liontrust UK Ethical Fund		Deposit Fund	
Investment return (pa)	4.85%		5.35%		0.35%	
Real investment return (net of inflation at 2.5% pa) (pa)	2.29%		2.78%		-2.10%	
Charges (pa)	0.60%		0.60%		0.60%	
Years from now	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)
0	15,000	15,000	15,000	15,000	15,000	15,000
1	15,344	15,252	15,417	15,325	14,685	14,598
2	15,696	15,509	15,846	15,657	14,377	14,206
3	16,056	15,770	16,286	15,997	14,076	13,825
4	16,424	16,035	16,739	16,343	13,781	13,455
5	16,800	16,305	17,205	16,698	13,491	13,094
6	17,185	16,579	17,683	17,060	13,208	12,743
7	17,579	16,858	18,175	17,429	12,931	12,401
8	17,982	17,142	18,680	17,807	12,660	12,069
9	18,395	17,431	19,199	18,193	12,395	11,745
10	18,816	17,724	19,733	18,587	12,135	11,430
11	19,248	18,022	20,282	18,990	11,880	11,124
12	19,689	18,325	20,846	19,402	11,631	10,825
13	20,141	18,634	21,425	19,822	11,387	10,535
14	20,602	18,947	22,021	20,252	11,148	10,252
15	21,075	19,266	22,633	20,691	10,914	9,978

Provider	Utmost Life		Utmost Life		Utmost Life		Utmost Life	
Fund	Lifestyling		Multi-asset moderate life		Multi-asset cautious life		UK Secure Cash	
Investment return (pa)	4.55%		4.55%		4.55%		0.35%	
Real investment return (net of inflation at 2.5% pa) (pa)	2.00%		2.00%		2.00%		-2.10%	
Charges (pa)	Variable		0.86%		1.11%		0.57%	
Years from now	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)	Pension pot value (before charges) (£)	Pension pot value (after charges) (£)
0	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
1	15,300	15,169	15,300	15,169	15,300	15,132	14,685	14,602
2	15,606	15,341	15,606	15,341	15,606	15,264	14,377	14,215
3	15,918	15,514	15,918	15,514	15,918	15,398	14,076	13,838
4	16,236	15,689	16,236	15,689	16,236	15,533	13,781	13,471
5	16,561	15,866	16,561	15,866	16,561	15,670	13,491	13,113
6	16,892	16,046	16,892	16,046	16,892	15,807	13,208	12,765
7	17,230	16,223	17,230	16,227	17,230	15,946	12,931	12,427
8	17,575	16,398	17,575	16,410	17,575	16,086	12,660	12,097
9	17,926	16,571	17,926	16,595	17,926	16,227	12,395	11,776
10	18,285	16,741	18,285	16,783	18,285	16,370	12,135	11,464
11	18,651	16,909	18,651	16,972	18,651	16,513	11,880	11,160
12	19,024	17,075	19,024	17,164	19,024	16,658	11,631	10,864
13	19,404	17,237	19,404	17,358	19,404	16,804	11,387	10,575
14	19,792	17,397	19,792	17,554	19,792	16,952	11,148	10,295
15	20,188	17,554	20,188	17,752	20,188	17,100	10,914	10,022