

The Electrical Contractors Association Limited (1974) Pension and Life Assurance Scheme (the "Scheme") - Defined Contribution ('DC') Section Chairman's Statement

Background

Regulations effective from 6th April 2015 require Trustees to prepare a statement showing how they have met certain minimum governance standards in relation to UK occupational pension schemes providing defined contribution ('DC') benefits.

The minimum governance standards cover four principal areas relating to the Scheme's DC benefits, namely:

- The investment strategy relating to the Scheme's default investment arrangement,
- The processing of core financial transactions,
- Value from member-borne charges and the level of transaction costs within the Scheme; and
- The trustees' compliance with the statutory knowledge, understanding (TKU) requirements

As Chair of Trustees, it is my pleasure to report to you on how the Trustees have embedded these minimum standards in the operation of the Scheme over the period 1st January 2017 to 31st December 2017.

The default arrangement

The Trustees are responsible for setting the Scheme's investment strategy and for appointing investment managers to implement that strategy. They must also establish a default investment arrangement for members who do not select their own investment options from the fund range that is available.

The "FL Mercer Target Drawdown Path" is the default investment arrangement for the DC Section. Typically, a small proportion of members will actively choose the default investment arrangement because they feel it is most appropriate for them. However, the vast majority of members do not make an active investment decision and are invested in the default investment arrangement. It has been designed for members who do not feel comfortable making their own investment decisions and who plan to take benefits through income drawdown in retirement (i.e. leave their savings invested throughout retirement, making period withdrawals as required) and a 25% tax-free cash lump sum from the Scheme at retirement.

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustees' have appended the latest copy of the Statement of Investment Principles (SIP), prepared in accordance with regulation 2A F2 (default investment strategy) of the Occupational Pension Schemes (Investment) Regulations 2005 ("the Investment Regulations"). The SIP sets out the objectives for the default investment arrangement and the other investment options in the Scheme.

The Trustees continued to monitor the DC Section's investments over the Scheme year, but did not undertake a strategic review over the period. The last strategic review was undertaken following the Finance Act 2015 (freedom and choice in retirement benefits for DC members) receiving Royal Assent on 26 March 2015; at the time, the Trustees reviewed the Scheme's investments and changed the default investment arrangement in 2015 (to the FL Mercer Target Drawdown Path), following member feedback and investment advice. After taking regulated advice, the Trustees

believe the current default arrangement is appropriate for the Scheme's membership. However, we will regularly monitor experience to ensure the default remains fit for purpose.

The Trustees will continue to consider the performance of the investments and their suitability, taking input from their professional investment advisors. The next strategic review of investments is scheduled to take place in 2018.

Requirements for processing financial transactions

The Trustees are required to explain how they ensure that core financial transactions are processed promptly and accurately. Core financial transactions include:

- 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.

The Trustees operate a system of internal controls aimed at monitoring the Scheme's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions.

The Trustees have delegated the administration of the Scheme's member records and investment platform services to Aviva. The Trustees appointed Aviva (formerly Friends Life) in December 2013. We monitor Aviva's performance in delivering administration services through the consideration of quarterly governance reports that summarise transactions over the quarter as well as compliance relative to service level agreements.

The Payment Schedule sets out timescales for the participating employers to remit monthly contributions to the Scheme. These timescales and compliance are reviewed regularly with detailed review as part of the annual audit. The Auditor to the Scheme spot checks that contributions to the Scheme are paid in accordance with the formal Payment Schedule.

The Scheme's Risk Register outlines the risks to Scheme members and these are monitored and reviewed at meetings. Included within the register are operational and scheme management risks and examples include late, incorrect or misallocated contributions.

Any service issues which have been raised are fully investigated and we are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, are dealt with properly.

Moreover, the Trustees have engaged Mercer Workplace Savings ("MWS") to provide ongoing governance support by way of monitoring Aviva's performance in delivering administration services (e.g. such as contribution processing and payments out). As part of its appointment, MWS has negotiated exclusive Service Level Agreements with Aviva, including financial penalties for the Scheme in the event of breaches above certain thresholds. This further helps the Trustees to ensure the prompt and accurate processing of core financial transactions.

Furthermore, the Chairman of Trustees visited Aviva's offices in Dorking (the site responsible for delivering Aviva's administration services for the Scheme) alongside MWS in February 2018, for added due diligence of Aviva's on-site systems and processes.

Charges and transactions costs

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

The Scheme complies with regulations on charge controls introduced from April 2015. Specifically, all of the funds used in the Scheme's current default investment arrangement have a total expense ratio that is below the charge cap of 0.75% p.a. on member-borne deductions.

The table that follows provides further detail on the charges (Annual Management Charges (AMCs) and Total Expense Ratios (TERs)) applicable to the funds in the default investment arrangement as well as across the funds in the self-select range. We have also included the estimated transaction costs, where available, for each fund.

Fund	AMC (% p.a.)	TER (% p.a.)	Estimated Transaction Costs (%)
Mercer Defensive / Lower Risk	0.44	0.47	0.12
Mercer Moderate Growth / Moderate Risk	0.48	0.52	0.19
Mercer Growth / Balanced Risk	0.48	0.53	0.15
Mercer High Growth / Higher Risk	0.48	0.54	0.25
Mercer Diversified Retirement	0.46	0.50	0.10
Mercer Cash Retirement Fund	0.38	0.38	0.00
Mercer Target Drawdown 2018 Retirement Fund	0.51	0.58	0.00
Mercer Target Drawdown 2019 Retirement Fund	0.54	0.61	0.00
Mercer Target Drawdown 2020 Retirement Fund	0.56	0.64	0.00
Mercer Target Drawdown 2021 Retirement Fund	0.56	0.64	0.00
Mercer Target Drawdown 2022 Retirement Fund	0.54	0.61	0.00
Mercer Target Drawdown 2023 Retirement Fund	0.52	0.59	0.04
Mercer Target Drawdown 2024 Retirement Fund	0.50	0.56	0.07
Mercer Target Drawdown 2025 Retirement Fund	0.47	0.54	0.11
Mercer Active Emerging Markets Equity	1.12	1.32	0.30
Mercer Diversified Growth	0.49	0.58	0.15
Mercer Passive UK Equity	0.33	0.33	0.70
Mercer Passive Overseas Equity	0.32	0.33	0.10
Aviva - UK Smaller Companies	0.40	0.40	2.23
BlackRock - Passive Global Equity (40:60)	0.30	0.30	0.00
Aviva - European Equity	0.40	0.40	0.18
Aviva - Pacific Basin Equity	0.40	0.40	0.65

Source: Aviva, Mercer GIMD and BlackRock. Fees and Transaction costs as shown as at December 2017 unless otherwise stated.

Transaction costs

The previous table shows the approximate underlying transaction costs for fund purchases and sales, based upon the information supplied to date; they are not guaranteed maximum or minimum levels. These transaction costs are shown as representative bid/offer spreads at a point time and will vary as market trading conditions change. In practice the funds used by the Scheme are single priced or single-swinging priced; therefore, these costs may or may not be incurred for any given trade and are implicit in nature – where incurred, such costs are reflected in the unit prices and are not monetary deductions from members' assets when they are traded. We note that the transaction costs indicated in the table above appear to be reflective of the dealing costs expected of the various asset classes and markets that they invest in. However, as there is no 'industry standard' or universe to compare these to, this can only be viewed anecdotally.

The Department of Workplace Pensions ("DWP") has recently published additional disclosure requirements of information about transaction costs in a standardised, comparable format. The framework will be effective from 6 April 2018, so we expect to be able to report on transaction costs and charges on a more granular level in next year's statement.

Value for Members

The Trustees have assessed the value for money of the member-borne deductions within the Scheme, in counsel with their advisers. This assessment considered the funds offered to members in terms of:

- Annual management charges for investment management
- Scheme charges for administration services
- Transaction costs
- Investment performance (net of fees)
- Bundled administration services paid for within the Scheme charge
- Aviva's performance as the platform provider
- Investment manager ratings

The Trustees concluded that the Scheme provides good value for members in relation to member-borne deductions. Moreover, additional services such as Trustee governance, adviser fees and additional communications that are paid for by the Sponsor further add value for members at a Scheme-wide level.

Clerical Medical With-Profits fund

It should be noted that members historically had the option to invest in a With-Profits fund with Clerical Medical. Assessing value for money on a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that the with-profits fund provides guarantees, whether that is a guaranteed pension, investment return or "just" capital security. Hence, we feel that a general conclusion on whether a with-profits fund offers value for money, ignoring an investor's objectives, is inappropriate. The Trustees will be writing to all members with Clerical Medical investments in 2018 to remind them of their investment choice and to provide them with information of the various alternative options available to them in the event they would like to review their investment choice.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Scheme. The Trustees understood their obligations and adhered to the requirements as follows:

- The Trustees have undertaken ongoing training, both as a group and individually to keep abreast of relevant developments;
- Training sessions are held as part of trustee meetings or independently where appropriate;
- The Trustees each have an individual training log which is updated as appropriate at each Trustees meeting;
- There is a review of the Trustees' Knowledge and Understanding undertaken periodically and the Trustees are considering carrying out a review in 2018;
- The Trustees are conversant with the Scheme's own documentation.

Signature: S Hall

Name: Steven Hall Date: 10 May 2018

Chair of Trustees of the Electrical Contractors Association Limited 1974 Pension and Life Assurance Scheme

Appendix - Statement of Investment Principles effective March 2017.