

HENDRE LIMITED RETIREMENT BENEFITS SCHEME

CHAIR'S STATEMENT (Scheme year ended - 31st March 2018)

Background

The Hendre Limited Retirement Benefits Scheme is a defined contribution (DC) occupational pension scheme as defined in Part 4 of the Finance act 2004.

This is the Chair's Statement as required by the occupational defined contributions trust based pension scheme code of practice.

The Scheme is closed to new entrants but contributions are still paid monthly to the Scheme in respect of the remaining active members.

Default Investment Arrangement

A default investment arrangement is generally provided for members who join a Scheme and do not choose an investment option for their contributions and is necessary where pension membership is automatic, as is the case for auto enrolled members.

The Scheme is not used for auto enrolment as the employer has implemented other workplace pension arrangements to satisfy this requirement and which have in place appropriate default investment funds.

The Scheme remains open only for members who invested in the Scottish Widows Conventional With-Profits Fund and who continue to benefit from a Guaranteed Annuity Rate (GAR).

The GAR was withdrawn for new contributions and increments from the 15th February 1999, and after careful consideration the Trustee Board closed the Scheme to new entrants on the 30th January 2010.

Active members, who had invested fully or partially in the Scottish Widows Conventional With-Profits Fund prior to the 15th February 1999, were allowed to maintain their pension contributions, capped at the pre 15th February 1999 levels. The pension contributions payable to the Scheme are in addition to the minimum levels required for auto enrolment purposes which are payable to the employer's workplace pension arrangements.

Members who had not invested in the Scottish Widows Conventional With-Profits Fund prior to the 15th February 1999 and who had not benefited from the GAR, were given the option to have their pension fund switched to an individual pension plan with Scottish Widows, or to have this transferred to the employer's new group pension plan or to a pension arrangement of their choice.

As pension contributions ceased to be paid to the Unit Linked Funds from 1st February 2010, the Trustee Board for the purpose of this report will treat the Scottish Widows Conventional With-Profits Fund as if this were the default investment arrangement.

Scottish Widows confirmed that the contributions paid to the Scottish Widows Conventional With-Profits Fund are pooled with the contributions of other policy holders who invest in with- profits. This fund is used to pay benefits earmarked for any with-profits policy holders.

Other investment funds are available within the Hendre Limited Retirement Benefits Scheme but pension contributions over and above those payable at the pre 99 levels, to secure the members GAR entitlement in the Scottish Widows Conventional With-Profits Fund, are paid to the employer's QWPS with Aegon where the fund choice is extensive.

The Scheme is wholly insured and as such, there is no requirement to produce a statement of investment principles.

The Trustees review the investment objectives and the performance of the Scottish Widows Conventional With-Profits Fund at least once a year with the Scheme Adviser: Origen Financial Services Limited.

The Trustees having reviewed the default investment arrangement can report that:-

- The Scottish Widows Conventional With-Profits Fund continues to adopt a diversified investment approach with an emphasis on lower risk investments, and this together with the smoothing of investment returns is considered to provide an appropriate investment solution for the current scheme membership.
- The GARs equal to 9.09% at age 60 for women, and 11.11% for men at age 65 represent value for money compared to the current annuity rates on the open market.
- Benefits contracted for and any increases made on or after the 15th February 1999, attract a reversionary bonus rate of 1%.
- The reversionary bonus rate for benefits contracted for and increases made before 15th February 1999, was 0%.
- Scottish Widows cannot provide information on Terminal Bonuses as this is considered to be commercially sensitive information.
- Whilst past performance cannot be taken as an indication of future performance Scottish Widows confirmed that the annual return gross of tax for the Scottish Widows Conventional With-Profits Fund is estimated to be 9% for 2017; confirmed as 10% for 2016.

The value of the guarantees and scheme benefits will continue to be reviewed annually.

The rules of the scheme permit payment of an annuity along with a Tax Free Lump Sum, if required. Whilst the Scheme can accommodate trivial or small pot payments it is still not possible to adapt the Scheme to allow flexible access to benefits under pension freedoms. Where flexible access is required, members must transfer the value of their pension fund to an alternative pension arrangement which will permit this method of pension fund withdrawal. In doing so, the member will give up any GAR entitlement.

The Trustee Board also recognised that whilst the guarantees are considered valuable, that the Scheme's lack of flexibility and alternative investment strategies may not be appropriate for all members and as a result members are free to cease contributing to the Scheme but on the understanding that this will prevent any future accrual benefiting from the GAR.

Financial Transactions

The scheme has service level agreements in place for the Pension Provider, and all professional advisers to the scheme.

The in-house Scheme Administrator is David Sullivan, who is supported by the Scheme Adviser; Origen Financial Services.

Administration is monitored at the Annual Trustee Meeting and by the Trustees who meet throughout the year, as and when required. The Scheme Administrator provides regular updates for the Trustees and there have not been any issues regarding the processing of core financial transactions.

All pension contributions have been calculated accurately and have been paid monthly in line with the schedule of contributions.

The scheme's audited annual Trustee Report & Accounts provide an overview of the financial transactions over the scheme year and there were no recorded failures or errors.

The administration report covers such matters as member complaints, transfer enquiries and monitors whether these proceed. This is also the case for members or beneficiaries claiming benefits. This report is reviewed at the annual Trustee meeting.

Transfer payments are handled by the Scheme Administrator, supported by the Scheme Adviser.

Death benefits are handled by the Scheme Administrator, supported by the Scheme Adviser.

Retirement Benefits are handled by the Scheme Administrator, supported by the Scheme Adviser.

All transactions mentioned above, require the Trustee approval.

With regard to the disinvestment and payment, or transfer of benefits, the anticipated time frame is 7 working days from the date that all relevant documents are received by Scottish Widows, which is deemed as reasonable.

Scheme Charges

All members receive an annual statement from the Scheme Administrator which projects their estimated retirement benefits. The annual statements comply with statutory guidance and are produced by the pension scheme provider; Scottish Widows.

The Trustees requested further information from the pension scheme provider on the actual charges and transaction costs and were advised that it is not possible to identify the total of the actual costs or charges for the scheme either at a collective or individual level, the reason specified by Scottish Widows is as follows:-

'All of the With-Profits policies are pooled together, so that they share in the performance of the With Profits Fund. Charges for administration costs are therefore, applied to pooled groups of policies rather than to individual policies and so it is not possible to specify the individual impact of these charges.'

a) Direct transaction charges:

- There are no direct transaction costs incurred by policyholders when transacting in the Scottish Widows Conventional With-Profits Fund.

b) Indirect transaction charges:

- As the premiums are treated as pooled investments, indirect costs such as bid-offer spread costs and costs charged within pooled investment vehicles, cannot and do not need to be disclosed.

The Industry standard for a modern workplace pension scheme is that member default fund charges should not exceed the Charge Cap of 0.75% per annum. The Scheme is not used for auto enrolment purposes and in any event is exempt from the Charge Cap due to the third party promise provided by the 'guaranteed annual pension income annuity'.

Whilst it is not possible to identify all of the charges and expenses associated with the Scottish Widows Conventional With-Profits Fund, it is possible to do so for all of the Scottish Widows Unit Linked Investment Funds and as some deferred or active members have also invested in these funds, the Trustees felt it appropriate to outline the associated charges.

Other than the Scottish Widows Unit Linked With-Profits Fund, all of the Unit Linked Funds incur a 5% Bid-Offer spread; when units are sold the bid price is usually 5% lower than the offer price.

The charges for the Scottish Widows Unit Linked Funds are:-

Scottish Widows Unit Linked Funds	AMC	Additional Expenses	Total
Unit Linked With Profits	0.875%	0	0.875%
Fixed Interest	0.875%	0	0.875%
Indexed Stock	0.875%	0	0.875%
UK Equity	0.875%	0	0.875%
International	0.875%	0.001%	0.876%
Mixed	0.875%	0.016%	0.891%
Property	0.875%	0.092%	0.967%

The employer pays fees in respect of any professional services associated with the Scheme including auditing annual accounts, administrative support and financial advice.

The Trustees with the help of the Scheme Adviser; Origen Financial Services have compared the level of annuity income available from the Scheme with that available on the open market and have concluded that the Guaranteed Annuity Rate continues to provide a higher annuity than that available on the open market.

The Trustees have concluded that the Scheme's 'guaranteed annuity rates' offers certainty and security for members in respect of benefits secured from the Scheme Retirement Age; 65 for males and 60 for females.

Trustee requirements for knowledge and understanding

Trustees must possess sufficient knowledge and understanding and as such take training and development seriously. A record of the training completed by each Trustee is logged and recorded by the Scheme Administrator.

The training record is reviewed annually to identify any gaps in the Trustees knowledge and understanding and this permits any gaps in knowledge to be fulfilled by:-

- Attending any relevant training courses
- Engaging with Professional advisers:-
 - Pension Consultants
 - Legal Adviser
 - Auditors

The Trustees engage regularly with their professional advisers and hold a formal Trustee Meeting each year, as well as ad hoc meetings when necessary. The formal meetings are typically held at the business premises of the Company, with a typical duration for the annual Trustee Meeting being at least 3 hours.

Newly appointed Trustees have a formal introduction to the Scheme and are provided with a full compliment of relevant scheme documents and information. A new Trustee is expected to complete all of the relevant modules of the Trustee Toolkit within 6 months of their appointment.

The Trustees engagement with their professional advisers makes it clear that their combined knowledge and understanding together with suitable advice, enables them to properly exercise their functions and as such the Trustees are confident that they have sufficient knowledge and understanding to administer the scheme.

Member Communications

Members will receive the following as a hard copy:-

- Personalised Annual Benefit Statement from Scottish Widows

The Chairs Statement along with the historical bonus rates for the Scottish Widows Conventional With-Profits Funds will be posted on the employer's website and details of how to access this will be brought to all members attention:-

Links to the following documents will also be provided:-

Fund Fact Sheet Scottish Widows With-Profits Fund

<https://reference.scottishwidows.co.uk/literature/doc/47199>

Scottish Widows With-Profits - Your Guide

<https://reference.scottishwidows.co.uk/docs/44620.pdf>

Report to Scottish Widows With-Profits Policyholders – Report on Principles and Practices of Financial Management (PPFM) for 2017

<https://reference.scottishwidows.co.uk/literature/doc/43982>

Scottish Widows With-Profits Fund Principles and Practices of Financial Management (PPFM)

<https://reference.scottishwidows.co.uk/docs/ppfm.pdf>

In addition, members receive a communication when approaching retirement which explains all of the pension options and sign posts to the free services provided by Pension Wise and The Pensions Advisory Service. Members are made aware that they can transfer to a more flexible arrangement but that in doing so that they will give up the Guaranteed Annuity Rate.

At retirement, members receive a pre retirement statement which includes the Open Market Option along with a reminder that if they choose to purchase benefits elsewhere that they will in doing so give up the 'guaranteed annuity rate'.