

THE ROYAL GRAMMAR SCHOOL SUPPORT STAFF PENSION PLAN

CHAIRMAN'S GOVERNANCE STATEMENT

YEAR ENDED 5 APRIL 2019

Introduction

Governance rules applied to defined contribution ("DC") schemes require the Trustees to include an annual statement regarding governance in the annual report. This annual statement covers the period from 6 April 2018 to the Scheme year end 5 April 2019.

The Trustees have ensured that the Privacy Notice, in compliance with the GDPR requirements, has been sent to all new members. All suppliers to the Plan have been checked for compliance. A website page is available to keep members informed about charges and transaction costs of the plan.

The Trustees have undertaken a DC Governance Review with sections on Administration and Investment Governance, the Business Plan, the Risk Register and the Trustee Training Log. These are examined at each Trustee meeting.

Default arrangement

The default investment arrangement is provided for members who join the Scheme and do not choose an investment option for their funds. Members can also choose to invest in the default investment arrangement which is set up by the Trustees. The default arrangement for the Scheme is the Clerical Medical Balanced Fund.

The Balanced Fund aims to achieve long term capital growth by gaining exposure predominantly to UK and overseas equities with flexibility to gain a minority exposure to commercial property and fixed interest stocks. The fund breakdown is below (as at 28 June 2019):

- UK Equity – 52.4%
- UK Fixed Interest – 11.6%
- North America Equity – 7.9%
- Money Market – 3.4%
- Property 6.3%
- Emerging Market Equity – 4.9%
- Global Equity – 3.8%
- Europe (excluding UK) Equity – 3.6%
- Other – 3.9%
- High Equity – 2.2%

The default fund provided a return of 1.4% for the 12 months to 28 June 2019 (which is the latest available update). This is the return net of the total annual charges.

By investing in this manner, the Trustees expect to deliver growth over the member's lifetime within the Scheme without excessive risk taking. The Trustees consider this approach to be in the best interests of relevant members and relevant beneficiaries.

The Trustees considered the new options relating to the default arrangement with Clerical Medical relating to the default strategy in May 2019. The Trustees are due to meet in October 2019 when these options will be discussed, and the Trustees will agree their approach to the default fund. This will form part of an overall review of the Scheme structure covering:

- Suitability of Clerical Medical;
- Structure of the Scheme;
- Structure of the Trustee Board.

The Trustees have agreed a Statement of Investment Principles (SIP) to comply with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (investment) (amendment) Regulations 2010. The SIP has been updated to include consideration of ethical and social governance and will be reviewed at the October 2019 meeting. The SIP is attached to this statement.

The SIP also provides the charges applied to all of the available self select funds. It is important to include the fee rebate as part of the overall charge assessment. For the purposes of this statement we will not restate the position on each individual fund choice.

Core Financial Transactions

The Trustees have a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to DC schemes are processed promptly and accurately. These transactions are undertaken on behalf of the Trustees by the Scheme administrator, and investment manager Clerical Medical.

The Trustees continue to work with the Scheme administrator to develop reporting covering how quickly and effectively the core financial transactions are completed. The Trustees remain concerned about the level of reporting and this was a contributor to the review outlined above and the discussions to take place in October 2019. If the concerns are not rectified, the Trustees will consider an alternative arrangement. Any mistakes or delays will be investigated thoroughly and action taken to put things right as quickly as possible. In this reporting period there have been no material administration service issues which need to be reported here by the Trustees.

The Trustees are developing the processes and controls to ensure they are suitable to achieve these objectives.

There has been little change on this position since the last update, and the Trustees have raised the issue of reporting within Clerical Medical and are actively pursuing improved responses from Clerical Medical. The Trustees will consider the appropriateness of retaining the Clerical Medical relationship at their May 2019 meeting.

Charges and Transaction Costs

The new governance rules require the Trustees to make an assessment of charges and transactions costs borne by the DC scheme members and the extent to which those charges and costs represent good value for money for members.

The scheme has two charging structures relating to 'Old World' units and 'New World' Units.

'Old World' units relate to contributions made to the scheme up to the 31st August 2004. The only charge is a 1% per annum Annual Management Charge (AMC). 'New World' units relate to contributions made to the scheme after the 31st August 2004. The only charge is a 0.45% per annum Annual Management Charge (AMC) and thus is the charge that all new members incur.

All 'Old World' members are invested in the With Profits fund, as such all members using the default arrangement of the Balanced fund are incurring 'New World' charges i.e. 0.45% per annum.

Clerical Medical have 61 funds available to members and also include six Lifestyle funds. The Trustees permit members to choose any of the funds available as this provides increased flexibility to align with member requirements as an alternative to the default arrangement. All funds are single priced and attract annual management charges of 0.45% to 1.3% (see SIP). The Trustees were satisfied that the charges on the default fund are within the prescribed limit and that the charges on the other funds are good value. However, as mentioned previously the Trustees are looking at a wider review within the Plan.

It is important to remember the impact of costs on your fund. The example below shows the impact of the default charge on a notional fund value, and also how higher charges would impact this. This does not relate to any individual members fund.

Year	Before Charges	AMC Option 1 (Default)	AMC Option 2
		0.45%	1%
0	10,000	10,000	10,000
3	20,083	19,885	19,644
5	27,221	26,808	26,312
10	46,647	45,366	43,852
15	68,561	65,855	62,714
20	93,281	88,477	82,997

25	121,166	113,453	104,809
30	152,622	141,029	128,264
40	228,132	205,089	180,608

Notes

1. Based on an initial pot of £10,000, annual contributions of 10% and an initial salary of £30,000.
2. The figures are discounted to today's money with inflation and salary increase assumptions of 2.5%.
3. The growth in fund is assumed as 5% per annum compound.
4. This is an illustrative example and not based on your own fund.

The annual management charges for future contributions are lower than the maximum allowed of 0.75%. The Trustees are in the process of reviewing the arrangement, which will include consideration of the appropriateness of the offering and value for money for members.

Cash Fund

The Trustees note that the Cash fund offered by Clerical Medical does not provide positive value to members. The current AMC of 0.45% is lower than the bank interest rate over the period. There is no alternative option available, and it is important that a cash fund is available to members who wish to protect funds from market volatility. Therefore, the Trustees will continue to offer this fund but feel it appropriate to note this point. This will be reviewed as part of the aforementioned exercise.

Strategic Review

The Trustees during the year have undertaken a strategic review of the plan examining the current scheme arrangements, alternative schemes, options for members, costs and the advantages / disadvantages of winding up the current scheme and moving members to a new scheme. Of particular attention was the position of with-profits members that need to be protected. Explore Wealth Management Limited, the financial adviser to the pension trust were requested to undertake the review and advice was also taken from the professional pension trustee. The advice is to the effect that the current pension structure is not as beneficial to the vast majority of members and the employer than alternative schemes, information delivery from Clerical Medical for members is poor, it has proved problematic to the trustees in obtaining information from Clerical Medical and is more costly to administer. The Trustees after considering the review and seeking advice from their professional advisors have agreed in principle to wind up the scheme as it currently stands and provide an improved alternative for members. This will be subject to further intensive work looking at the details of the alternative schemes and the process to make the change. Members will be consulted on these proposed changes before a final decision is made.

Trustee 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 trusts¹, the 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.

In order to be able to properly exercise their functions, the Trustee needs to have a working knowledge of the following documents relating to the Scheme:

- The governing Scheme's trust deed and rules
- The SIP; and
- Any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally.

To ensure that the Trustees have the necessary level of knowledge and understanding, the Trustee has undertaken the following training during the past scheme year:

- Regular training sessions during each Trustee meeting;
- Trustees are required to complete the Pensions Regulator's Trustee Toolkit modules.

¹ Regulation 23(1)(d) of the Administration Regulations

The Trustees have a good working knowledge and understanding of pension and trust law as well as funding and investment principles. A training schedule recording all Trustee Director training has been maintained. In addition, the Trustee has obtained actuarial; legal, accounting, investment and consulting advice as and when required during the past Scheme year.

The Trustees completed a Trustee Board Questionnaire as part of their assessment of the skills-set and experience of each member of the current Trustee board, taking account of the training undertaken during the past Scheme year, and are satisfied that the combined knowledge and understanding of the Trustee, together with the advice which is available from professional advisers, enables the Trustee to properly exercise its functions as a Trustee of the Scheme. This questionnaire also captured any gaps in the Trustees' knowledge, and appropriate support is provided in these areas.

The Trustees have received legal from Mincoffs LLP and market updates from Explore Wealth Management Limited at each Trustee meeting.

A handwritten signature in black ink, appearing to read 'P Kramer', with a stylized, cursive script.

Mr P Kramer

Chairman of the Trustees