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# Governance Statement for the Defined Contribution Section of the Plan

# Colas (UK) Pension Plan

## Introduction

This Governance Statement sets out the information that the Trustees are required to provide by law – namely demonstrating how the Plan's defined contribution pension arrangements meet the governance standards that came into effect from 6 April 2015. It covers the period from 1 April 2019 to 31 March 2020.

The Plan has both Final Salary categories, which are open to future accrual, but closed to new entrants, and Defined Contribution ('DC') categories, which are open to new members. This Statement is in respect of the DC categories and AVCs in respect of Final Salary category members, i.e. the 'DC Section' of the Plan.

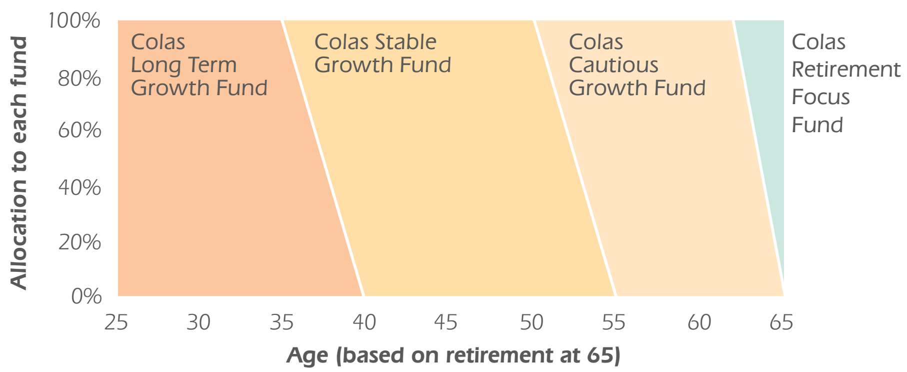
## The default 'lifestyle' arrangement

The investment of pension fund assets is often a long-term exercise. The common aim is to have long-term growth which is higher than inflation for most of the time up to retirement. However, the investments most likely to give good long-term returns tend to change in value, sometimes by quite large amounts, and sometimes over quite short periods of time.

To try to reduce the effect of short-term changes in the value of the benefits that a member can take using their DC fund at retirement, the Trustees have arranged a lifestyle option to form the default arrangement for any members who do not choose to invest their DC fund in a different way.

The default arrangement described in this Governance Statement is that which was in place as at 31 March 2020. This was formally reviewed in full by the Trustees in March 2015. A follow up review was carried out in 2017, after which a change to the default fund was implemented with effect from June 2017. When carrying out this review, the Trustees took into account the impact on different groups of members. Details of the changes are set out later in this Statement.

Over the longer term, funds containing a large proportion of company shares (equities) have generally outperformed other types of investment in the past. A lower expected risk can be achieved by diversifying the investments and having a spread of investment types. The default option has four sections, called Blend Funds, each of which has a different investment aim. The allocation of a member's DC fund between the Blend Funds automatically changes as they approach retirement to reflect their changing risk and return requirements. For someone intending to retire at their Normal Retirement Date (assuming a Normal Retirement Age of 65), the transition between the Blend Funds would be as follows:



The transition between funds will be slightly different for members planning to retire before or after age 65 because switches into the Colas Stable Growth Fund are linked to age, and will always take place between the ages of 35 and 40, whereas switches into the Colas Cautious Growth Fund and the Colas Retirement Focus Fund depend on the time left until the member's retirement age. The switch into the Colas Retirement Focus Fund is designed to be most suitable for Default option members who will take 25% of their Retirement Fund as a cash lump sum, with the remaining 75% being used to take benefits in other forms. In particular, the Default option is suitable for those members who are undecided as to how they wish to take their benefits at retirement, and wish to leave their options open until then.

The default lifestyle option does not aim to give the highest investment return but aims to protect the level of cash and other benefits on retirement from investment falls or crashes.

The Trustees review the performance of the Plan's investment funds, including the default fund, on a quarterly basis and carry out a value for money assessment annually. The Trustees do not believe any changes are needed to these funds at present.

## Statement of Investment Principles (SIP) in respect of the default arrangement

The key governance issues are addressed in the Trustees' DC Section SIP and Statement of Investment Arrangements (SIA). Extracts from these relating to the default arrangement are set out below. A full copy of the SIP is also appended to this statement.

### Aims and objectives

The Trustees' aims and objectives in relation to the default strategy are to support members' investment needs where members either choose the default option or do not choose any option.

In setting investment objectives, the Trustees recognise that members will have differing investment needs and tolerances for risk, which may change over time. The Trustees also take into account the expected level of investment expertise among members, the likelihood of members seeking professional advice in respect of their investment choices and the resulting risk of inappropriate decision-making by members.

The Trustees' objectives are therefore to:

- provide a suitable and understandable range of investment options for members, with appropriate investment guidelines, target returns and risk (where risk is measured by fluctuations in returns and the level of any falls in value);
- provide a default option that takes an appropriate level of risk on behalf of the member in pursuit of growth, according to their age and/or planned retirement date; and
- ensure contributions payable by the employers and members are invested in accordance with the options selected by members.

### Investments held in the default arrangement

The default arrangement involves switching members across four pre-built blended funds as they approach retirement. Each blend has a different risk and return objective, thereby taking account of members' changing risk profiles as they approach retirement. The blended funds are intended to:

1. Take account of market and industry developments
2. Increase the level of active asset allocation to attempt to deliver more attractive returns
3. Create a more stable journey for members

The Lifestyle option will be the default where a member does not make a specific investment choice. The Lifestyle option phases a member's funds through four blended funds as retirement approaches:

1. Long Term Growth Fund
2. Stable Growth Fund
3. Cautious Growth Fund
4. Retirement Focus Fund

The matrix below details an example of a member's lifestyle progression across the four Blended Funds assuming a retirement age of 65.

Switching between the Long Term Growth and Stable Growth Fund will always occur between the ages of 35 and 40, whereas switches into the Cautious Growth and Retirement Focus Fund will depend on time left until retirement.

| Years to Retirement | Long Term Growth | Stable Growth | Cautious Growth | Retirement Focus |
|---|---|---|---|---|
| 30+ | 100 | | | |
| 29 | 80 | 20 | | |
| 28 | 60 | 40 | | |
| 27 | 40 | 60 | | |
| 26 | 20 | 80 | | |
| 25 to 15 | | 100 | | |
| 14 | | 80 | 20 | |
| 13 | | 60 | 40 | |
| 12 | | 40 | 60 | |
| 11 | | 20 | 80 | |
| 10 to 3 | | | 100 | |
| 2.75 | | | 92 | 8 |
| 2.50 | | | 83 | 17 |
| 2.25 | | | 75 | 25 |
| 2.00 | | | 67 | 33 |
| 1.75 | | | 58 | 42 |
| 1.50 | | | 50 | 50 |
| 1.25 | | | 42 | 58 |
| 1.0 | | | 33 | 67 |
| 0.75 | | | 25 | 75 |
| 0.50 | | | 17 | 83 |
| 0.25 | | | 8 | 92 |
| 0 | | | 0 | 100 |

## Risks

The Trustees recognise a number of key risks to themselves and to the members of the Plan:

i) **Value for Members Risk** – the risk that the Plan fails to offer value for money to members. This is addressed through regular review of the charges levied on members' assets.

ii) **Inflation Risk** – the risk that the purchasing power of their investment account is not maintained. To try and manage this risk, the Trustees have offered a range of funds designed to achieve a return above the rate of inflation.

iii) **Conversion Risk** – the risk that the value of pension benefits that can be obtained is not maintained as retirement approaches, due to a member's assets not being suitably matched with their retirement objective. This risk is currently addressed in part within the default option, where the 'at-retirement' asset allocation reflects the three retirement income options of encashment, annuity purchase and income drawdown. Members may also self-select from the available fund range to match a particular retirement income decision.

iv) **Capital Risk** – the risk that the value of the element to provide a tax-free cash sum is not maintained. To try and mitigate this risk, the Trustees have offered a range of funds designed to achieve a return above the rate of inflation.

v) **Active Manager Risk** – the risk that the active investments underlying the Plan's investment options underperform. The Trustees have mitigated this risk by delegating fiduciary responsibilities to the Fiduciary Manager. The Fiduciary Manager utilises a wide range of funds, diversified across asset classes, sub asset classes and Underlying Managers to reduce the active manager risk.

This risk also relates to underperformance arising from underperformance of the Fiduciary Manager in its delegated duties. The Trustees mitigate this risk through frequent performance monitoring and governance.

vi) **Platform Risk** – the assets are currently held by the Platform Manager. This risk relates to potential losses that could arise if the Platform Manager ran into financial difficulties. The Trustees carried out a comprehensive platform review to ensure they were comfortable with the choice of Platform Manager. The Trustees continue to monitor the Platform Manager to ensure they remain comfortable.

vii) **Communication Risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made. This is addressed through the Trustees receiving advice from the Advisers and regular monitoring and updates, where appropriate, of member communications.

viii) **Inappropriate Member Decision** – the risk that members make inappropriate decisions regarding their investments. This is addressed where possible through communication to members and the recommendation that members seek independent financial advice. The Trustees have also offered a default fund with a 'Lifestyling element' designed to phase members into lower risk and annuity price matching investments as they approach retirement.

ix) **Organisational Risk** – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through a regular monitoring of the Advisers.

x) **Liquidity Risk** – the risk that members are not able to realise the value of their funds when required. The Trustees have addressed this risk by only offering funds which are considered liquid.

xi) **ESG Risks** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by ESG assessment at the point of investment with the Managers where applicable, or by requesting information on the ESG policies, adopted by the Managers.

The importance of each risk varies with time. Inflation is important throughout the whole period to retirement whereas pension purchase risk and capital risk become significant as retirement approaches.

The Trustees have provided a default option that aims to address the above risks through a member's life. R&M Solutions may vary the underlying asset allocation and Underlying Managers within this option from time to time in response to changing market conditions and Underlying Manager developments. This may include the use of derivatives.

The Trustees also provide members with a self-select fund range into which they may direct their contributions so as to allow each member to determine the appropriate mix of investments based on their own attitude to risk, terms to retirement and investment objective. The Trustees recognise the options they have selected are subject to underperformance risk.

This is addressed through providing options with appropriate diversification and through regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate, as well as by the use of more than one manager to avoid over exposure to one organisation.

The Trustees recognise that an efficient process for identifying, evaluating, managing and monitoring risks needs to be in place for the Plan. The Trustees will identify and assess the impact of any risk, what controls can be put in place to manage the risk and review both the individual risks and the effectiveness of the risk management process as a whole.

The Trustees will keep these risks and how they are managed under regular review.

### Expected return on investments

Investment Guidelines for each blend are shown below.

| Colas Long Term Growth Fund Investment Restrictions | Asset Class | Min (%) | Max (%) |
|---|---|---|---|
| | Equity | 30 | 90 |
| | Return Seeking Credit | 0 | 60 |
| | Of which Sub-Investment Grade Debt | 0 | 40 |
| | Property | 0 | 15 |
| | Alternatives | 0 | 20 |
| | Cash and Sovereign Bonds | 0 | 60 |
| **Investment objectives** | | | |
| Long Term Target (over rolling 3 to 5 yrs) | CPI + 5% p.a. | | |
| Short Term Benchmark (each quarter) | Composite benchmark of indices:<br>65% Global Equity, 25% Credit, 5% Gilts, 5% Cash | | |
| Risk Management (each quarter) | Volatility 75% of that of Global Equity | | |
| R&M Solutions' Risk Rating | 4 (of 6) | | |

| Colas Stable Growth Fund Investment Restrictions | Asset Class | Min (%) | Max (%) |
|---|---|---|---|
| | Equity | 20 | 70 |
| | Return Seeking Credit | 0 | 60 |
| | Of which Sub-Investment Grade Debt | 0 | 40 |
| | Property | 0 | 12.5 |
| | Alternatives | 0 | 15 |
| | Cash and Sovereign Bonds | 0 | 60 |
| **Investment objectives** | | | |
| Long Term Target (over rolling 3 to 5 yrs) | CPI + 4% p.a. | | |
| Short Term Benchmark (each quarter) | Composite benchmark of indices:<br>50% Global Equity, 35% Credit, 10% Gilts, 5% Cash | | |
| Risk Management (each quarter) | Volatility 67% of that of Global Equity | | |
| R&M Solutions' Risk Rating | 3.5 (of 6) | | |

| Colas Cautious Growth Fund<br>Investment Restrictions | Asset Class | Min (%) | Max (%) |
|---|---|---|---|
| | Equity | 15 | 55 |
| | Return Seeking Credit | 0 | 45 |
| | Of which Sub-Investment Grade Debt | 0 | 30 |
| | Property | 0 | 10 |
| | Alternatives | 0 | 15 |
| | Cash and Sovereign Bonds | 0 | 70 |

| Investment objectives | |
|---|---|
| Long Term Target (over rolling 3 to 5 yrs) | CPI + 3% p.a. |
| Short Term Benchmark (each quarter) | Composite benchmark of indices:<br>40% Global Equity, 30% Credit, 25% Gilts, 5% Cash |
| Risk Management (each quarter) | Volatility 60% of that of Global Equity |
| R&M Solutions' Risk Rating | 3 (of 6) |

| Colas Annuity Focus Fund<br>Investment Restrictions | Asset Class | Min (%) | Max (%) |
|---|---|---|---|
| | Investment Grade Credit | 25 | 35 |
| | Gilts | 65 | 75 |
| | Cash | 0 | 10 |

| Investment objectives | |
|---|---|
| Long Term Target (over rolling 3 to 5 yrs) | Composite of indices corresponding to the underlying investments held. |
| Short Term Benchmark (each quarter) | Composite of indices corresponding to the underlying investments held. |
| Risk Management (each quarter) | n/a |
| R&M Solutions' Risk Rating | 2 (of 6) |

| Colas Cash Fund<br>Investment Restrictions | Asset Class | Min (%) | Max (%) |
|---|---|---|---|
| | Cash | 0 | 100 |

| Investment objectives | |
|---|---|
| Long Term Target (over rolling 3 to 5 yrs) | 100% LIBID 7 Day |
| Short Term Benchmark (each quarter) | 100% LIBID 7 Day |
| Risk Management (each quarter) | n/a |
| R&M Solutions' Risk Rating | 1 (of 6) |

| Colas Retirement Focus Fund<br>Investment Restrictions | Asset Class | Target |
|---|---|---|
| | Cautious Growth Fund | 37.5 |
| | Annuity Focus Fund | 37.5 |
| | Cash Fund | 25 |

| Investment objectives | |
|---|---|
| Long Term Target (over rolling 3 to 5 yrs) | Composite of underlying component benchmarks. |
| Short Term Benchmark (each quarter) | Composite of underlying component benchmarks. |

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### Realisation of investments

Funds used within the default strategy are unitised, pooled funds which are dealt daily.

### Social, environmental and ethical considerations

The Plan's investments are made via pooled investment funds, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or other financially material considerations, is delegated to the manager of the pooled investment fund.

These considerations which include the above 'Risks' can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as ESG) where relevant. The Trustees delegate consideration of financially material factors to the Platform Manager, who consider these factors for funds that are available to beneficiaries through the default arrangement and as self-select funds, when making funds available on its investment platform. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered in the context of long term performance, by the Trustees (in conjunction with its advisors) as part of the manager selection criteria. This review occurs before funds are approved for investment. For invested funds, the Trustees request the Platform Manager monitor ongoing compliance with ESG and other factors, like stewardship, as a part of overall engagement.

The Trustees do not at present take into account non-financially material factors.

### Investing in members' best interests

In designing the default strategy, the Trustees carried out a comprehensive review of the previous investment strategy, in conjunction with the Investment Adviser, focusing on member needs and outcomes, and cognisant of the impact of their policies, aims and objectives.

Following this review, the Trustees selected the combination of aims and objectives within the default, and their policies in order to achieve an investment strategy which it believes is in the best interests of relevant members and beneficiaries. This belief is supplemented by undertaking regular (at least triennial) investment strategy reviews of the default strategy, investment governance (at least quarterly) and value for member reviews (in conjunction with the advisers).

## Reviews of the default arrangement

The Trustees have received quarterly information on the performance of the DC funds underlying the default arrangement over the last Plan year from the Investment Manager, and this has been reviewed formally at each Trustee meeting.

As noted above, the default investment strategy was last formally reviewed in full by the Trustees in March 2015. A follow up review was carried out in 2017. Following these reviews and discussions, the Trustees updated the default DC investment strategy in June 2017. The main changes were as follows:

- The Retirement Protection Fund was replaced by the Retirement Focus Fund. It was historically assumed that most members would take 25% of their DC Fund as tax-free cash, with the remaining 75% being used to buy an annuity. The Retirement Protection Fund invested members' funds in a suitable manner for such an approach. However, following the introduction of additional pension flexibilities by the Government in April 2015, it became less likely that members would purchase an annuity with their DC funds. The new Retirement Focus Fund was therefore introduced in order to provide a suitable investment for members wishing to take advantage of the new flexibilities. This contains some investments which move in line with annuity prices, and other investments that would suit the alternative retirement options available to members.
- A new Self-Select fund, the Annuity Protection Fund (subsequently renamed the Annuity Focus Fund), was made available which may be more suitable for members wishing to purchase an annuity a retirement.

## Processing of financial transactions

The core financial transactions include investment of contributions, transfers into and out of the Plan, switches between the different investment funds that are available, and payments out of the Plan.

The Plan administrators have adopted internal control procedures that are designed to ensure that core financial transactions are processed promptly and accurately. The Trustees had no concern over the administration of financial transactions during the Plan year.

The Plan has a service level agreement in place with the administrators, which covers the accuracy and timeliness of all core transactions. The Trustees receive quarterly reports from the Plan administrators that enable them to monitor the administration service and, in particular, that agreed service levels are being met. The Trustees also review the annual administration assurance reports obtained by the Plan administrator, which provide assurance that the internal control procedures are being followed in practice.

The Trustees therefore believe that the administration of the Plan has been suitable and there are no material issues to report.

## Charges and transaction costs

'Charges' means investment related costs other than transaction costs (see below). Members bear charges that are deducted from the funds in which their benefits are invested. The charges differ between the investment funds that are available.

The annual management charges ('AMCs') and total expense ratios ('TERs') applicable for the year ending 31 March 2020 to the funds underlying the default arrangement and the other investment funds available are set out in the table below. The TERs vary over the course of the year based upon the underlying investments, which will each have different levels of expenses. Since the funds are actively managed, the underlying investments change on a regular basis and the TERs could therefore vary over the period. We have therefore set out the TERs at the start and end of the reporting period to give an indication of the range of expenses incurred.

Table 1: Charges on investment funds for year ending 31 March 2020

| Fund | AMC[1] (% p.a.) | TER[2] (% p.a.) at 31 March 2019 | TER[2] (% p.a.) at 31 March 2020 |
|---|---|---|---|
| Colas Long Term Growth | 0.38 | 0.62 | 0.50 |
| Colas Stable Growth | 0.38 | 0.66 | 0.52 |
| Colas Cautious Growth | 0.38 | 0.56 | 0.48 |
| Colas Retirement Focus | 0.30 | 0.42 | 0.38 |
| Colas Annuity Focus | 0.26 | 0.31 | 0.30 |
| Colas Cash Fund | 0.06 | 0.16 | 0.16 |

1 The AMC (Annual Management Charge) includes all fixed provider costs and comprises the platform charge for investment administration, charges for managing the asset allocation of the Plan (where applicable) and any Third Party charge.

2. The TER (Total Expense Ratio) represents the total cost of running the Plan. It includes the AMC as well as the cost of the underlying investment provider charges (including depository and custodial charges and audit, registration and compliance fees). The TER will change from time to time, in the main driven by changes in the underlying asset allocation of the Plan.

3. Under the default arrangement, members' savings are invested in the first four funds above, with the allocation to each fund dependent on their age and term to retirement. All six funds are available under the 'self-select' option.

The Trustees are required, as far as is reasonable and practical, to calculate the transaction costs paid by members during the assessment period and assess the extent to which these transaction costs represent good value for money. If transaction costs are not available, the Trustees must instead state the lengths they are going to in order to obtain transaction costs.

Transaction costs are a complicated issue as they are associated with different member, Trustee or manager actions. Transaction costs can be split into three areas:

### 1. Transaction costs incurred by members as part of changes in the fund range

There have been no changes to the fund range at a member level (e.g. replacing Long Term Growth with another blend at a strategic level). Therefore, those members self-selecting their investment options would not have incurred any transaction costs due to changes in the fund range over the year.

Within the Lifestyle option there are four blended funds, each with varying allocations to underlying managers and securities. Being able to alter these underlying allocations is important in generating fund returns and managing risk, ensuring each fund performs in line with its objective. These changes can be subject to transaction costs, primarily through dealing costs associated with the buying and selling of funds and securities. These costs are reflected as part of the transaction cost details set out under '3. Frictional Costs' below.

### 2. Transaction costs incurred by members buying and selling funds as part of a lifestyle

A member in the default lifestyle is required to buy and sell assets when automatically switching between funds within the lifestyle. We estimate that over a member's life, the cost of entering the lifestyle, switching between funds and subsequently redeeming assets upon retirement for each £1 of income invested in the Long Term Growth Fund is c. 0.19% (or 0.19p) in a worst-case scenario. This equates to an average of 0.005% per annum, as at 31 March 2020.

A breakdown of the cost estimate on a worst case basis is provided in table 2. The figures do not take account of netting trades within the funds (e.g. cancelling out selling common underlying funds between the blends). They also assume that a member pays a cost of 'bid price – mid price' for any sale of assets and 'mid price – offer price' for any purchase of assets (hence the 'worse case scenario').

Table 2: Worst-case scenario lifestyle switching costs

| Movement between funds | Worst case cost |
|---|---|
| Buy Long Term Growth | 0.02% |
| Long Term Growth > Stable Growth | 0.03% |
| Stable Growth > Cautious Growth | 0.03% |
| Cautious Growth > Retirement Focus | 0.07% |
| Sell Retirement Focus | 0.03% |
| **Total** | **0.19%** |
| **Total p.a.** | **0.005%** |

Source: Underlying fund managers, as at 31 March 2020. R&M Solutions calculations as at July 2020.

Assumptions: (1) members join the Plan 40 years from retirement
(2) price swings are all unfavourable to members
(3) no netting of trades occurs

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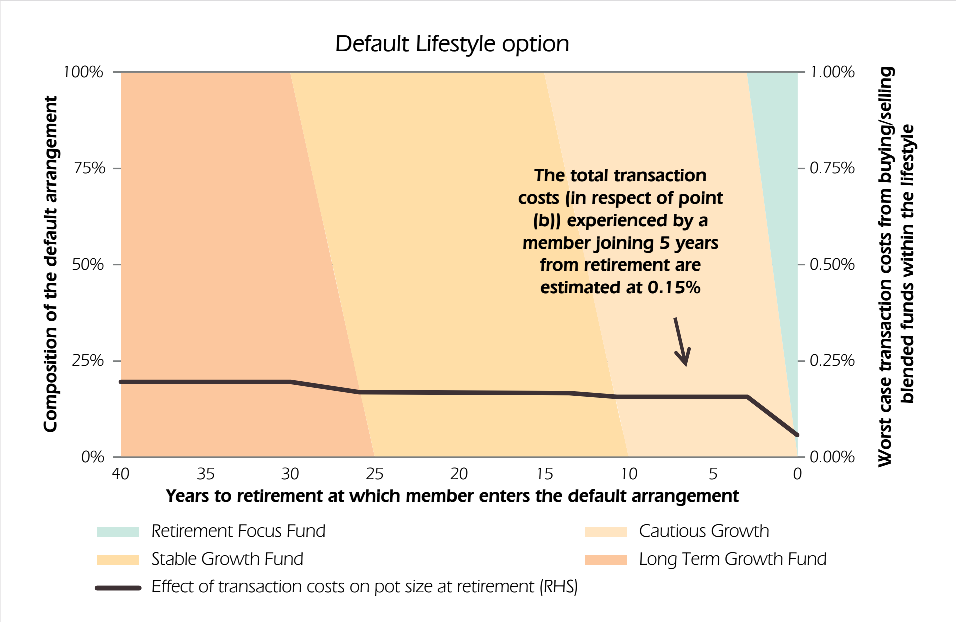
Members will experience varying levels of cost depending on their position within the lifestyle. Actively contributing members would have experienced at least one source of transition cost on the contributions they made over the year. Deferred members may or may not have experienced transition costs of this nature, depending on if they phased between funds or not. These costs will continue in the future at a level expected to be similar to those in table 2.




Lifestyling is carried out automatically for members who are invested in the default lifestyle. Market conditions are considered in the context of deciding on the composition of the funds in the lifestyle, but not when automatically phasing members between funds. The funds are established and governed in a way which is cognisant of market conditions, therefore it is not necessary (or practical) to consider market conditions for each member each month when lifestyling.

The funds are priced on a 'single swinging basis', meaning they may be priced at bid or offer on any day, depending on the net cashflow (from all investors in/out of the fund) that day. Therefore, in practice, the cost incurred is unlikely to be the full amount above and may even provide an uplift, should fund prices swing favourably. Members will also experience varying levels of costs depending on their position within the lifestyle. Therefore, it is not practical to split out the actual costs incurred by each member and neither the actual trading costs incurred by members dealing funds or the transaction costs incurred as part of the ongoing smooth running of the funds during the assessment period are available at this point. Investment managers generally are facing a challenge to disclose transaction costs as they can be hidden within prices paid for individual securities. Managers also require system developments to be able to disclose transaction costs in a cost-effective, scalable manner, using automated processes.

The estimate of the cost of switching between funds as part of the default arrangement, in a worst case scenario, is shown on the chart above. The red line (with the scale on the right hand side) represents the transaction costs experienced by each pound invested in the default strategy at different points over a member's working lifetime. For example, a contribution invested five years from retirement, would experience transaction costs of up to 0.15% p.a. as that contribution entered the Cautious Growth Fund, transitioned into the Retirement Focus Fund and was ultimately disinvested at retirement.

## 3. 'Frictional costs' incurred by members due to funds internally buying and selling underlying assets (e.g. stocks or bonds)

As part of day-to-day trading activities, the funds may incur 'frictional costs'. Frictional costs are categorised as explicit costs and implicit costs. Explicit costs are directly observable and in most cases managers are in position to report them. Examples of explicit costs include broker fees, transaction taxes and custody fees. Implicit costs cannot be observed in the same way but do have an impact on fund performance. Examples of implicit costs include bid-offer spreads and market impact.

These costs would be incurred every time a fund manager makes a trade within that fund and are intended to improve investment returns, reduce risk, or contribute to the smooth running of a fund. Some costs will be cognisant of market conditions (e.g. some active investment decisions), and some costs are in respect of decisions not linked to market conditions.

The table below sets out the total annualised transaction costs for each fund within the default and self-select range covering the period 1 April 2018 to 31 March 2020 (i.e. a 2 year average).

| Fund | Total transaction cost |
|---|---|
| Long Term Growth | 0.020% |
| Stable Growth Fund | 0.137% |
| Cautious Growth Fund | 0.065% |
| Retirement Focus Fund (Default) | 0.021% |
| Cash | 0.007% |
| Annuity Protection fund | -0.010% |

Source: Old Mutual Wealth from 01/04/18 to 30/01/19. Mobius Life from 31/01/19 to 31/03/20. Underlying fund managers. R&M calculations as at July 2020.

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Below is an illustrative example of the cumulative effect over time of the application of charges and costs on the value of a member's accrued rights. The example outlines the effects of fund charges (the TERs above) and transaction costs (also above) across the Plan's fund range.

**Projected pension pot, in today's terms**

| Year | Default Lifestyle | | Colas Long Term Growth | | Colas Stable Growth | |
|---|---|---|---|---|---|---|
| | Gross of all charges | Net of TER and frictional transaction costs | Gross of all charges | Net of TER and transaction costs | Gross of all charges | Net of TER and transaction costs |
| 1 | £14,900 | £14,800 | £14,900 | £14,800 | £14,700 | £14,600 |
| 3 | £20,600 | £20,300 | £20,600 | £20,300 | £20,100 | £19,800 |
| 5 | £27,000 | £26,500 | £27,000 | £26,500 | £26,000 | £25,300 |
| 10 | £46,200 | £44,600 | £46,200 | £44,600 | £43,200 | £41,300 |
| 15 | £70,700 | £67,000 | £71,300 | £67,700 | £64,600 | £60,500 |
| 20 | £98,800 | £91,700 | £103,600 | £96,800 | £91,100 | £83,700 |
| 25 | £133,200 | £121,000 | £145,400 | £133,600 | £123,900 | £111,600 |
| 30 | £174,000 | £154,800 | £199,000 | £179,800 | £164,200 | £145,000 |
| 35 | £216,300 | £189,200 | £267,900 | £237,700 | £213,800 | £184,900 |
| 40 | £264,000 | £227,100 | £355,900 | £310,200 | £274,500 | £232,500 |

**Projected pension pot, in today's terms**

| Year | Colas Cautious Growth | | Colas Retirement Focus | |
|---|---|---|---|---|
| | Gross of all charges | Net of TER and transaction costs | Gross of all charges | Net of TER and transaction costs |
| 1 | £14,600 | £14,500 | £14,200 | £14,200 |
| 3 | £19,600 | £19,400 | £18,400 | £18,300 |
| 5 | £25,000 | £24,500 | £22,700 | £22,400 |
| 10 | £40,300 | £38,800 | £34,100 | £33,100 |
| 15 | £58,600 | £55,600 | £46,200 | £44,500 |
| 20 | £80,300 | £75,000 | £59,100 | £56,400 |
| 25 | £105,900 | £97,400 | £73,000 | £69,000 |
| 30 | £136,200 | £123,300 | £87,900 | £82,300 |
| 35 | £171,900 | £153,200 | £103,800 | £96,200 |
| 40 | £213,900 | £187,500 | £120,700 | £110,900 |

**Projected pension pot, in today's terms**

| Year | Colas Cash | | Colas Annuity Focus Fund | |
|---|---|---|---|---|
| | Gross of all charges | Net of TER and transaction costs | Gross of all charges | Net of TER and transaction costs |
| 1 | £14,200 | £14,200 | £13,900 | £13,900 |
| 3 | £18,400 | £18,400 | £17,400 | £17,200 |
| 5 | £22,700 | £22,600 | £20,700 | £20,500 |
| 10 | £34,100 | £33,700 | £29,000 | £28,500 |
| 15 | £46,200 | £45,500 | £37,100 | £36,100 |
| 20 | £59,100 | £58,000 | £44,900 | £43,500 |
| 25 | £73,000 | £71,300 | £52,600 | £50,700 |
| 30 | £87,900 | £85,500 | £60,200 | £57,700 |
| 35 | £103,800 | £100,500 | £67,800 | £64,600 |
| 40 | £120,700 | £116,500 | £75,300 | £71,400 |

**Notes:**

- Values shown are estimates and are not guaranteed;
- Transaction costs are reflected as at 31 March 2020;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Assumes inflation of 2.5% per annum;
- Assumes charges in future years are equal to charges today (transaction costs are shown in the table above);
- Assumes a member is aged 25 years old now and stops contributing at age 65;
- Assumes an overall contribution rate of 8% of annual salary, the £ amount of which increases in line with assumed salary inflation;
- Assumes a starting pot size of £12,000;
- Assumes a member salary of £25,000 in Year 0, increasing at 1% per annum above inflation;
- The accumulation rates used are set out below:

| Fund | Real (above inflation) accumulation rate per annum (gross of charges) |
|---|---|
| Long Term Growth | 5.0% |
| Stable Growth Fund | 4.0% |
| Cautious Growth Fund | 3.0% |
| Retirement Focus Fund (Default) | 0.5% |
| Annuity Focus Fund | -1.9% |
| Cash | 0.5% |

Source: Mobius Life, R&M calculations as at 31 March 2020

The above illustration has been prepared with due regard to the Department for Work and Pensions' guidance ('Cost and charge reporting: guidance for trustees and managers of occupational schemes'), published in February 2018.

## Value for money

The Trustees review all sources of fees levied on members' accounts (including management charges, additional expenses and platform charges as appropriate) to ensure value for money is present. The Trustees consider, among other items, the absolute level of charges, the competitiveness of the Plan's charges relative to the marketplace and the levels of service provided to members.

A formal value for money review was carried out, in relation to the arrangement effective at 31 March 2020. The review concluded that the default arrangement attracts a total expense ratio (TER) of 0.50% of assets under management on average throughout a member's working lifetime (assuming 40 years of service). This is significantly lower than both the maximum allowed of 0.75%, and the estimated average charge for DC schemes across the UK, and the Trustees are satisfied that the Plan is priced competitively, taking account of the current asset size and expected growth.

Value for money is evidenced both qualitatively (through the provision of what the Trustees consider a good strategy, and good internal controls and services from the underlying investment manager), and quantitatively (through strong investment performance, in line with members' expectations).

Overall, the Trustees' assessment shows that the Plan offers above average service levels, with below average charges to members.

## Trustee knowledge and understanding

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

- New Trustees receive appropriate training on appointment.
- New Trustees receive relevant Plan documentation on appointment.
- The Trustees receive regular training on pension issues at Trustee meetings. During the 2019/20 Plan year the Trustees received a training session from their legal advisers on trustee duties, discretions and protections, as well as on current legal issues in pensions. They also received regular training on investment issues, including sessions on cashflow matching credit, investment consultant objectives and the proposed alignment of RPI and CPIH.
- The Trustees maintain a working knowledge of the scheme documentation including the Trust Deed and Rules and Statement of Investment Principles. In particular, these documents are reviewed by the Trustees when changes are required or revised versions are produced. The Trustees also review their compliance processes and documentation on an annual basis.
- The Trustees receive regular briefing notes from their advisers explaining the latest developments in the pensions industry and/or changes in the legal or regulatory requirements.

- The Trustee board's training needs are considered regularly. The Trustees carry out an annual DC governance self-assessment checklist based upon the Regulator's template in order to identify any areas of development required. The Trustees also intend to review their governance standards more widely (i.e. not just limited to the DC Section) over the 2020/21 Plan year by responding to a questionnaire provided by their consultants. This will help to identify areas where further training or development may be needed, or where governance processes may need addressing.

The Trustees have also appointed professional advisers who provide advice and support, which means that the Trustees are able to properly exercise their functions as Trustees of the Plan.

## Further Information

If you require any information about the Plan, or have any questions, please contact Mofozul Ali at XPS Pensions or Rebecca-Faye Thomas at XPS Administration, who both have the following contact details:

**Albion, Fishponds Road, Wokingham, Berkshire, RG41 2QE**

**0118 313 0700**

***Signed for and on behalf of the Trustees of the Plan by A C Gray, Chair of Trustees***

September 2020