

ReAssure Trustees Limited

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Windsor Life Directors Investment Programme

Annual Governance Statement for the Year Ending 31 December 2017

Introduction

This is the third year that I have prepared a statement as Chair of ReAssure Trustees Limited and I have some important news about the future of your scheme. As trustees it is important that we keep up with developments in the pensions market and make sure that your scheme remains appropriate for our members and compliant with regulations.

There are new requirements coming into force during 2018 which will impact this scheme as it is classed as a master trust scheme. These include new registration requirements and ongoing regulations which must be met in order for us to maintain the scheme as a registered pension scheme.

The cost of running this scheme has been subsidised by ReAssure for a number of years, added to this, the membership of the scheme has reduced and is now less than 150 members. These facts together with the additional governance and registration requirements set by the new regulations mean ReAssure has concluded that the scheme is no longer viable.

We have therefore informed the Pensions Regulator that it is our intention to wind up this scheme and assign benefits to individual members. There will be no impact on your individual benefits as ReAssure is meeting the cost of closing the scheme. You will have received a letter telling you about this and what options are available to you. It is important that you read this as it provides details of what is happening and what options you have.

This Chair Statement covers the period 1 January 2017 to 31 December 2017



Zahir Fazal, Chair, ReAssure Trustees Limited

As Trustees we recognise the importance of good scheme governance and set out details of certain matters as requested by Regulation in the following pages.

Transaction processing

We are required to make sure that core financial transactions in the Scheme are processed promptly and accurately.

The Scheme is administered by ReAssure and they have provided us with management information and reporting to confirm that important financial transactions, such as receipt of contributions, investment allocations, charges and the payment of benefits, have been processed promptly and accurately. The majority of these transactions are carried out in a fully automated way which increases effectiveness and efficiency. However, where automated processes fail, ReAssure have a robust process for picking these problems up and providing the information on a manual basis.

A full audit of contributions is undertaken by ReAssure each year to ensure contributions are received in line with expectations and an Annual Report is produced confirming these findings which is presented to us at one of our Board meetings for agreement.

They also check all payments out are completed in line with the members requests and report these to us on a quarterly basis.

ReAssure have provided us with extracts from their administration system which confirms the due dates of contributions and the dates on which they are received. They also provide us with quarterly governance reports which detail how they have performed against agreed service levels across of range of processes which include issuing pension 'wake up' packs and vesting documents as well as keeping us informed on how members are taking their benefits.

ReAssure have also presented details of the governance framework in place to ensure appropriate monitoring and oversight.

Policy transactions on the system are processed in a timely manner according to Customer Services' service level agreements. Any breaches due to delays or incorrect administration are logged and dealt with in agreed timescales. The identification, tracking and rectification of issues is done through a well-governed process, including the establishment of root causes and trends to help prevent future breaches. This is managed by the Compliance function with appropriate monitoring and escalation in place, as necessary.

ReAssure advise us of any late payments made by employers in line with The Pensions Regulator requirements. In the relevant period there has been one instance of late payment reporting made to the Trustees.

We are satisfied that ReAssure has robust systems and the capability to process core financial transactions promptly and accurately in line with the agreed service levels and the requirements of the law.

Charges and Transaction Costs

Charges to 31 December 2016			
	Directors Investment Programme 1 Scheme	Directors Investment Programme 2 Scheme	Executive Pension Account Scheme
Bid/Offer Spread	5%	5%	5%
Allocation rates for regular premiums	92% to 105% depending on size and frequency	102%	87% to 105% depending on size and frequency
Allocation rates for single premiums	96.5% to 105% depending on size	96 to 105% depending on size	96% to 104% depending on size
Loyalty bonus	Nil	0.7% from year 6	2% maturity bonus if all premiums paid
Initial units	Regular premiums and top ups for first two years	N/A	Regular premiums and top ups for first two years
Annual management charge on ordinary units	1% 0.8% on Guaranteed Deposit 3.5% on High Security	1%	0.75% to 1%
Annual management charge on initial units	4.5% 4.3% on Guaranteed Deposit 3.5% on High Security		4% to 4.25%
Investment Management Charge	0.05% to 0.29%	0.05% to 0.29%	0.04% to 0.34%
Policy fee – regular premium	£2.50 per month with escalation	£7.88 per month fixed £5.79 per month fixed if paid up	£10.39 per month
Policy fee – single premium	N/A	£5.79 per month	£6.94 per month

Charges from 1 January 2017	
Charge Capping	We have agreed with ReAssure that a member policy will be subject to a cap on ongoing charges on accumulation units of 1%, including the bid offer spread or similar explicit transaction costs incurred. This was implemented in May 2017 and backdated to take effect from 1 January 2017
Exit Charge Capping	In addition, a 1% exit charge cap was introduced on the 19 January 2017 for customers who want to take or move their benefits once they reach 55 years of age
New Funds	Finally, ReAssure have included details of three new funds available to members in the annual statement they send to members. These funds have an Annual Management Charge of 0.65%, and no 'bid offer spread'. These funds do bear their own investment expenses which vary over time, the charges at present range between 0.06% and 0.09%.

Transaction Costs

ReAssure's *Investment Management Charges* (IMCs) are the amounts ReAssure pays to the external investment manager to cover the costs of overseeing the underlying investments,. IMCs vary by fund and over time, as each fund bears its own charges, based on the investments made within each fund. ReAssure's approach is to group funds with similar investment mandates into a single base fund. This pooling of investments increases the size of funds and hence reduces the impact of IMCs through economies of scale. As a result, these do not have significant impact on the overall level of charges.

Additional transaction costs may be incurred by the external investment manager when assets are bought or sold and these costs are incurred directly by the fund.

We have requested details of any transaction costs which apply to these plans. But before ReAssure can provide us with these costs, they have to get them from their fund managers.

Up until now ReAssure have been unable to obtain this information from their fund managers. However, the Financial Conduct Authority and Department of Work and Pensions initiated new regulations which meant that from 3 January 2017, fund managers had to gather the necessary data to allow them to provide this information.

We have received confirmation that the fund managers are doing this, but it requires at least three to six months of data before any meaningful information can be provided. This means ReAssure cannot give us definitive transaction costs right now. However, ReAssure have confirmed they will be able to provide us with details of transaction costs from September 2018, and we have seen some initial numbers. However, as these relate to investments outside of the reporting period, we will include these in our next annual Chair Statement. We have raised our concerns over the lack of transparency over transaction costs but understand that Reassure are reliant on receiving this information from their fund manager Aberdeen Standard Investments.

Value for Money

As trustees we have a legal duty to assess whether you are getting value for money. As part of this assessment it is important that we not only look at the charges, but also at the scope and quality of the services provided to our members across the core areas of customer service, customer proposition, investment performance and scheme governance and management.

In assessing the value for money, we have taken into account the following.

Customer Service

ReAssure have provided us with a set of agreed customer service standards and they report to us quarterly on how they are doing against these service standards. Across the vast majority of these, ReAssure have met and exceeded the agreed service standards for our members. Also, their customer satisfaction rating is above the industry average.

Customer Proposition

When members come to retirement ReAssure provides help in making sure our members make the most of their pension funds by:

- introducing members who want to buy an annuity to LV=, a specialist annuity provider who give our members access to the best annuity rates available in the market from a panel of annuity providers
- making available a simple, low cost, flexible drawdown product, the Retirement Account.
- offering members access to the ReAssure Retirement Planning Tool which allows our members to explore their retirement options on-line.

Investment Performance

The investment managers aim for second quartile performance which provides stable growth without the prospect of volatility first quartile performance can bring with it.

ReAssure monitor fund performance closely and are currently going through an exercise to move some actively managed funds to passive management which will reduce the ongoing costs incurred by these funds.

Taking the above factors and the charge capping that has been implemented with effect from 1 January, we the directors of ReAssure Trustees Limited believe that your scheme now offers you value for money.

Default Funds

Your Plan was originally made available in May 1983 when there were a number of unit linked funds to choose from. At this time all members had to select their investment funds at outset and the plan did not offer a specific default fund. However, in June 1986 the process changed for the Directors Investment Programme 1 Scheme and remained in place for the launch of the Directors Investment Programme 2 Scheme in 1991 and if members did not select a fund on their application form in these two schemes they were automatically invested into the Managed Pensions Accumulator (MPA) fund.

Of the 751 members from the original Directors Investment Programme Schemes, there are three members who were put into the MPA's fund by default as no investments were selected at outset. There are 15 others who are potentially default members (as we do not hold their original application form), the rest of members selected their own fund choice at outset.

We took external advice from Barnett Waddingham on whether the Managed Pensions Accumulator fund remains a suitable default fund choice for a typical member. It was agreed that during the period leading up to retirement that this was a suitable fund. The Statement of Investment Principles, including the review of the default fund was signed on the 17 May 2017.

The fund is a managed fund with the investments spread over all the major areas; equities (UK and foreign), gilts and other fixed interest stocks, property and cash deposits. The objective of the fund is to provide steady long-term returns whilst safeguarding the fund against unnecessary risks. There is a 0.14% investment annual management charge on this fund. We are still awaiting details of any transaction costs although from the information we have received we do not believe these will have any significant impact on the charges.

Whether you have made your own choice or have been defaulted into a fund, it is important that you consider if your investments remain in a fund that is appropriate for your circumstance.

Investment Strategies and Performance

The Fund Manager is *Aberdeen Standard Investments* (ASI). The investment strategy in place for policyholder assets aims to outperform benchmarks over the medium to long-term, which is considered as a period of at least three years.

Members can select funds from a wide range available, which represent the major asset classes. ReAssure allow customers to switch funds free of charge, but fund switch volumes are minimal. ReAssure has been taking action to drive greater customer engagement with fund selection by making available more detailed information on funds and their risks and performance (via *Morningstar*) and making fund switches easier to do online or by phone.

Almost 80% of members' money is held in the diversified Fund as described above. A further 11% is held in the Equity Pension Accumulator Fund with the balance being split across other funds.

The characteristics and net performance of all the unit-linked funds are regularly reviewed by ReAssure's *Board Investment Committee* (BIC) to ensure that they are aligned with the interests of members. Their terms of reference include reviewing historic performance figures, including volatility of returns relative to benchmarks. The Trustees will receive minutes and reports of the BIC on a quarterly basis to ensure that appropriate monitoring of investment performance is ongoing.

The average investment return (weighted by the total value of funds under management) has been above benchmark over the last five years but has underperformed over shorter periods. The Trustees are satisfied that action is taken where medium-term underperformance has persisted.

Overall, we consider that each investment strategy is designed and executed in the interests of customers and includes clear statements of the funds' aims and objectives.

Trustee Knowledge & Understanding

The Pensions Act 2004 require the trustees to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We recognise the importance of having the right mix of skills, competencies and personalities on the Trustee Board to ensure that the Scheme is well governed and properly managed.

For the reporting period of this Statement, the Trustee Board consisted of five directors, three independent, including the Chair and two non-independent. Between us we have over 120 years' experience of running, managing and or advising pension schemes.

The Trustee Board was carefully selected to ensure that, individually and collectively, we have the appropriate skills, knowledge and experience in relation to acting as Trustees, to be able to execute our duties, and assess and make judgements on trustee responsibilities.

An open and transparent recruitment process was implemented, which involved the Chair of trustees in the appointment of other trustees, to ensure credibility and independence.

The majority of trustees are Independent and chosen from leading non-affiliated professional service firms providing the necessary skills to run a well-established Pension Scheme. The two non-independent members were selected to bring valuable in-depth ReAssure policy-specific knowledge and understanding to the Trustee Board. They are bound to act in the interest of scheme members in their capacity as trustee directors and have written agreements in place with ReAssure to allow them this freedom.

All trustee directors are required to read and understand the Trustee's Board governance documents, including the conflicts of interest policy and statement of investment principles. We are also responsible for our own training which includes completing the Trustee Toolkit. The trustee directors keep a log of all training undertaken.

We are also able to use both the technical and legal support of ReAssure as and when we need to. This keeps us up to date with both current legislation and any changes proposed for the future. ReAssure also have a good knowledge of the Plan rules and their terms and conditions.

In addition, where needed we get expert legal and investment advice from external advisers.

All of this means that we have the combined knowledge and understanding needed to properly run and govern the Scheme.

Short Biographies for each of the Trustees

▪ **Zahir Fazal - Chair**

Zahir is a Chartered Accountant and a Director of BESTrustees plc. His current appointments cover a wide range of pension schemes, both defined benefit and defined contribution, and diverse industry sectors. He has several appointments as Chair of Trustees, is a trustee of a Master Trust and also Chairs two Governance Committees for contract based pension arrangements.

▪ **Giles Payne**

Giles has over 25 years' experience in pensions, having worked for consultancies, an insurance company, an asset manager and now as an Independent Trustee. Giles chairs 5 schemes and works with another four investment sub-committees. Before joining Capital Cranfield Trustees he worked at HR Trustees, an prior to that he worked for 10 years for Legal & General Investment Management as a client manager, looking after a range of schemes covering various investment mandates, including both defined benefit and defined contribution.

▪ **Andrew Parker**

Andrew is involved in a number of pension trustee boards of varying sizes and complexity, in both defined benefit and defined contribution areas. He chairs several of these trustee boards. He joined Law Debenture from BT Group where he was a sponsor-nominated trustee director of the BT Pension Scheme (BTPS). Andrew is also a director of Law Debenture Governance Services and leads the governance services practice across corporate and pension trustee boards. Andrew is a solicitor by training.

▪ **Paul Parsons**

Paul has worked in Management and Executive positions within the Customer Services and Information Technology functions of ReAssure and other group companies for the past 30 years. During that time he has contributed towards the implementation of the key business administration and system strategies of the Company and played a key operational role in historic business acquisitions and migrations

▪ **Simon Thomlinson**

Simon is an actuary and has over 25 years of experience in financial services in both mutual and proprietary organisations. He joined ReAssure in 2006 with the acquisition of the GE Life group of companies, where he was responsible for the development of individual pensions business. He sat on the Trustee Board of the defined benefit pension scheme, with particular focus on the terms on which schemes were merged.

The independent Trustees have completed the Pension Regulator's toolkit and undertaken sufficient CPD to meet the requirements of the Association of Professional Pensions Trustees. The two non-independent trustees will also be working through The Pensions Regulators Trustee Toolkit training to ensure they have the latest knowledge around their responsibilities as trustees.

We also attend seminars and conferences about pensions, read information published by The Pensions Regulator and attend externally run courses on various aspects of being a pension trustee.

Membership of the Trustee's board will be reviewed on a regular basis, to ensure that the independent trustees continue to be independent and the balance of expertise is appropriate. Single fixed terms of no longer than five years (with a cumulative maximum duration of ten years if reappointed) ensure trustees continue to be able to challenge effectively.

The Trustee Board intends to build on this year's activity and continue to serve its purpose and act in the interests of the members of the Directors Investment Programme.

How to contact us

Members who have concerns or queries about the Scheme and their benefits can contact us by writing to:

Mrs Tracy Hoare FPMI

ReAssure
Windsor House
Ironmasters Way
Telford Centre
Telford
TF3 4NB

On behalf of the Trustees:

Signature:

Title:

Date: