

ReAssure Trustees Limited

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Windsor Life Directors Investment Programme

Annual Governance Statement for the Year Ending 31 December 2016

Introduction

This is the second year that I have prepared a statement as Chair of ReAssure Trustees Limited (previously Admin Re Trustees Limited) on behalf of the Trustee Board in respect of the Windsor Life Directors Investment Programme which is made up of three separate schemes:

- Directors Investment Programme 1 sold between 1983 and 1997 by Crown Life
- Directors Investment Programme 2 sold between 1991 and 1995 by Crown Life
- Executive Pension Account sold between 1984 and 1997 by Aegon

This Chair Statement covers the period 1 January 2016 to 31 December 2016 and deals with the following key areas:

- that any default arrangements are designed in members interests and kept under regular review;
- the investment strategies followed
- that core financial transactions are processed promptly and accurately;
- that the value of charges and transaction costs borne by scheme members is reasonable; and
- that the trustee board has the knowledge and understanding necessary to run the scheme properly



Zahir Fazal, Chair, ReAssure Trustees Limited

The Trustee Board recognises the importance of good scheme governance and sets out details of our findings in the following pages.

Transaction processing

We received management information and reporting from ReAssure 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.

ReAssure 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. There has been one instance of late payment reporting made to the Trustees.

Charges and Transaction Costs

Charges During 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 tops 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	N/A	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 your 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 you in the annual statement they send you. 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 charges or expenses incurred when trading or maintaining the underlying investments, including taxes. Trading costs currently include such items as stamp duty and dealing commission, while administration costs primarily include investment management and custodian fees.

IMCs vary by fund and over time, as each fund bears its own charges, based on the transactions 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.

Transactions costs have been considered in assessing the impact of all charges, in totality. Based on available information, the Master Trust Board has not seen any evidence to suggest these are not reasonable for the nature of the investment, though it recognises the difficulties in ensuring that transaction costs in their entirety have been captured. We are aware that the FCA and the industry is currently working on some standardised methods for the assessment of transaction costs and we will therefore be looking at this area in more detail during 2017/18

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 as trustees 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 large fluctuations 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, ReAssure Trustees Limited believe that your scheme now offers you value for money.

Default Funds

The 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 fund.

Of the 751 members from the original Directors Investment Programme Schemes, there are three members who were put into this fund by default as no investments were selected at outset. There are 15 others who are potentially default members, the rest of members selected their own fund choice at outset.

The Trustees have taken advice on whether the Managed Pensions Accumulator fund remains an 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. However, we have agreed that a life-styling strategy should be initiated for default members as they approach the time to take their benefits and we will be writing to the impacted members to explain what this will mean before we make any changes.

Life-styling is a process where the money invested in your pension is gradually moved out of riskier (but higher potential return) assets, such as shares, into lower risk (but lower potential returns) assets, such as cash deposit funds or bonds.

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 Asset Management* (AAM). 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 richer 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 Managed Pension Accumulator Fund as described above. A further 4% 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 trustees were 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.

Independent trustees were sourced from leading professional services firms providing such skills to the well-established Pension Scheme trustee market. 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.

Short Biographies for each of the Trustees

- **Zahir Fazal - Chair**

Zahir is a Chartered Accountant and a Director of BESTTrustees 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 HR Trustees, 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 were selected to bring valuable in-depth ReAssure policy -specific knowledge and understanding to the work of the Trustee Board. They are bound to act in the interests of scheme members, in their capacity as trustees. However, they will also be working through The Pensions Regulators Trustee Toolkit training to ensure they have the latest knowledge around their responsibilities as trustees.

Membership 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 ReAssure's members of the Directors Investment Programme.

On behalf of the trustees:

Signature:

Title:

Date: