The Thomson-Leng Provident Fund (DC Section)

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR PERIOD 1 APRIL 2018 TO 31 MARCH 2019

I am pleased to present the Trustee's annual statement of governance, covering the period 1 April 2018 to 31 March 2019. I note that in June 2019 the structure and funds options were changed, this statement only covers the year to 31 March 2019. This statement describes how the Trustee seeks to ensure that the Fund is well-managed and delivers excellent services to members. In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the 'Regulations'). This statement covers five key areas:

1. The investment strategy relating to the Fund's default arrangement;
2. The processing of core financial transactions;
3. Charges and transaction costs within the Fund;
4. Value for Money assessment; and
5. The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.

The Fund is a hybrid pension arrangement comprised of a non-contributory Defined Benefit Section ("DB Section") and a Defined Contribution Section ("DC Section") into which both the Company and members pay monthly contributions.

The term 'defined contribution' means that the value of members' benefits on retirement is unknown in advance and is not guaranteed but is dependent on factors such as the amount of contributions paid in, investment returns earned and expenses incurred. The way in which members choose to withdraw their benefits will also have a bearing on their financial outcomes during retirement. The disclosures in this statement relate entirely to the DC Section and include those required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

Christopher HW Thomson
Chair of DC Thomson & Co Pension Trustee Limited

September 2019

1. The default investment arrangement

The Trustee provides a default investment arrangement for members who do not, or choose not to, make active investment decisions on where their pension account is invested.

A copy of the Fund's Statement of Investment Principles (SIP), dated 28 March 2017 which was prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 is attached. This SIP was effective for the year ending 31 March 2019.

The Trustee regularly considers the suitability of the default investment arrangement. A comprehensive review of the default investment arrangement was carried out in November 2017 and discussions continued through 2018 with the Trustee agreeing to move all assets from the Mercer Global Investment (MGI) fund range to the Mercer Workplace Savings (MWS) fund range on the Scottish Widows (formerly Zurich) investment platform. This was finalised in June 2019. This change increases diversification of the investments available to members in their growth phase, offers members lifestyle strategies tailored towards the increased flexibility under the freedom & choice legislation and changes the default lifestyle target from purchasing an annuity at retirement to targeting income drawdown. Default lifestyle members will also pay lower fees than the former arrangement.

2. Requirements for processing financial transactions

The Pensions Regulator defines core financial transactions including:

- Bulk transfers in and out
- Member fund switches and redirections
- Receipt of contributions
- Investment of contributions
- Individual transfers in and out quotes and payments
- Benefits payable on death
- Purchase of annuities and payments of lump sums

The Trustee has a specific obligation to ensure that such transactions are processed accurately and promptly. To that end, Mercer has been appointed fund administrator and MGI investment manager. Together, they have responsibility for processing core financial transactions on behalf of the Trustee. The Trustee has considered the key controls operated by these organisations and has in place service level agreements (SLAs) that cover the accuracy and timeliness of all core financial transactions.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately as follows:

- The Trustee operates a system of **internal controls** aimed at monitoring the DC Section's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the DC Section and the payment of benefits on retirement.

- The Fund's **Risk Register** outlines the risks to members in relation to financial transactions that are monitored and reviewed on a regular basis.

- The **Schedule of Contributions** sets out timescales for the Company to remit monthly contributions to the DC Section.

- The Trustee has delegated the **administration** of member records to a professional third party administrator, Mercer Limited ("Mercer"). The Trustee has agreed minimum timescales with Mercer, including core financial functions. Mercer's administration reports are reviewed at regular intervals by the Trustee.

- 97% of SLAs were passed, with no significant issues occurred during the year ended 31 March 2019.

- As part of the annual audit the Fund **Auditor** checks that contributions are paid in accordance with the Fund rules. The Fund Auditor is HMA Henderson Loggie.

3. Charges and transaction costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments and its assessment on the extent to which the charges and costs represent good value for members.

Schemes are required to publish, within 7 months of the scheme year-end following the introduction of the regulation coming into effect, free of charge and on a publicly available website:

3.1. Charges

The Annual Management Charge ("AMC") and Total Expense Ratio[1] ("TER") payable under the default strategy will vary depending on the stage that each member has reached in the 'lifestyle' de-risking process. The table below shows the TERs of the funds as provided by the fund manager. Note that expenses are a function of the size of the fund and will change over time. The TERs are allowed for through the unit prices of the various funds offered. The Provident Fund currently pays all other expenses and running costs of the Fund.

All of the funds used in the default strategy have TERs that fall below the charge cap of 0.75% p.a. All fees are as at March 2019.

Fund	AMC % p.a.	TER % p.a.[1]
Growth	0.40	0.40
Defensive	0.27	0.27
Cash	0.07	0.09

Members also have the option to self-select from the following funds:

Fund	AMC % p.a.	TER % p.a.[1]
High Growth	0.50	0.50
Growth	0.40	0.40
Moderate Growth	0.34	0.34
Diversified Growth	0.45	0.47

[1] The TER includes the AMC and additional expenses incurred by the investment manager such as trading fees, legal fees, auditor fees and other operational expenses.

Fund	AMC % p.a.	TER % p.a.[1]
High Growth	0.50	0.50
Growth	0.40	0.40
Defensive	0.27	0.27
Cash	0.07	0.09

3.2. Transaction costs

In March 2018, the Government published final regulations for additional disclosures on member-borne charges under trust-based pension schemes providing money-purchase benefits which came into effect from April 2018. They build on existing rules regarding charges; including the requirement for trustees to assess value for members annually and the duty on investment providers to disclose, on request, information about the scheme's transaction costs.

Transaction costs are those incurred by fund managers as a result of buying, selling, lending or borrowing investments. Transaction costs incurred at an underlying manager level automatically feed into the unit price. The MGI funds operate on a 'single-swinging price' basis, therefore, there are no explicit transaction costs incurred by an investor entering or exiting these funds. Single-Swinging price is a pricing methodology used to help protect the interests of existing investors in a given fund. This is achieved by allowing the net value of redemptions and subscriptions from all investors on a particular day to potentially affect whether the price on the day swings lower (to account for a net sale of the underlying securities), or higher (to account for net purchases of the underlying securities). The swing reflects the implied trading costs incurred by the fund. However, these cannot be easily quantified and depends on whether investors' trading is in the same direction as the price swing.

The Trustee has requested information on transaction costs from the underlying funds from its fund managers, but this was not available. The Trustee can confirm that transaction costs will be available from Scottish Widows going forward.

3.3. Illustrations

Based on the statutory guidance and in accordance with the regulatory requirements, the Trustee has prepared illustrations detailing the impact of the costs and charges typically paid by a member of the Fund on their retirement savings pot. The illustrations are based on the funds that exhibit the lowest and highest levels of assumed growth, the lowest and highest assumed charges and the most popular fund by number of members. In some cases this may be the same fund.

The illustrations are based on the youngest member of the Fund (age 19 and 46 years from Normal Retirement Age of 65) and the average member of the Fund (age 42 and 23 years from Normal Retirement Age of 65).

To make the illustrations representative of the membership of the Fund, the illustrations have taken into account the following elements, based on membership data:

- DC pot size
- Pensionable Salary
- Contribution rates
- Real terms investment return gross of costs and charges
- Adjustment for the effect of costs and charges

- Period of investment

Youngest member

Year End	Most Popular		Highest expected growth and highest charges		Lowest expected growth and lowest charges	
	Default Arrangement (Lifestyle option)		High Growth		Cash	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	1,846	1,839	1,854	1,845	1,815	1,814
5	8,591	8,484	8,766	8,630	7,921	7,900
10	17,890	17,483	18,639	18,105	15,217	15,142
15	28,258	27,317	30,083	28,816	22,155	21,998
20	39,818	38,064	43,351	40,926	28,752	28,489
25	52,707	49,809	58,732	54,618	35,027	34,634
30	67,078	62,644	76,563	70,098	40,994	40,452
35	83,100	76,670	97,234	87,598	46,668	45,960
40	100,964	91,998	121,197	107,385	52,065	51,174
45	112,924	102,047	148,976	129,754	57,197	56,110
46	113,789	102,748	155,042	134,567	58,193	57,065

<u>Assumptions</u>
- Future inflation assumed to be 2.5% p.a.
- Salaries assumed to increase at 2.5% p.a.
- Default investment strategy projected growth rates vary with age, given that the strategy's asset allocation changes over the 5.5 years prior to age 65. The assumptions used for the youngest member is as follows:
  - Age 19
  - Growth Rate 4.49% p.a. (before charges).
  - Salary £15,000 (based on a sample of members)
  - Starting Pot Size £250 (based on a sample of members)
  - Contribution 10.5% (based on a sample of members)
  - TER is assumed to be 0.39% and transaction costs are assumed to average 0%.
- High Growth Fund average growth rate before charges is assumed to be 5.50% p.a.
- TER is assumed to be 0.50% and transaction costs are assumed to average 0% p.a.
- Cash Fund average growth rate before charges is assumed to be 1.50% p.a.
- TER is assumed to be 0.09% and transaction costs are assumed to average 0% p.a.

Average member

Year End	Most Popular Default Arrangement (Lifestyle option)		Highest expected growth and highest charges High Growth		Lowest expected growth and lowest charges Cash	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	24,985	24,885	25,162	25,036	24,279	24,257
5	46,047	45,317	47,403	46,462	40,973	40,829
10	75,088	72,984	79,171	76,378	60,918	60,548
15	107,468	103,220	115,999	110,202	79,886	79,216
20	140,146	133,225	158,693	148,442	97,924	96,890
23	152,515	144,599	187,507	173,743	108,319	107,039

Assumptions
- Future inflation assumed to be 2.5% p.a.
- Salaries assumed to increase at 2.5% p.a.
- Default investment strategy projected growth rates vary with age, given that the strategy's asset allocation changes over the 5.5 years prior to age 65. The assumptions used for the average member is as follows:
    - Age 42
    - Growth Rate 4.27% p.a. (before charges).
    - Salary £36,000 (based on a sample of members)
    - Starting Pot Size £20,000 (based on a sample of members)
    - Contribution 12.5% (based on a sample of members)
    - Average TER is assumed to be 0.37% and transaction costs are assumed to average 0%.
- High Growth Fund average growth rate before charges is assumed to be 5.50% p.a. TER is assumed to be 0.50% and transaction costs are assumed to average 0% p.a.
- Cash Fund average growth rate before charges is assumed to be 1.50% p.a. TER is assumed to be 0.09% and transaction costs are assumed to average 0% p.a.

Notes
1. Projected pension pot values are shown in today's terms, and do not need to be reduced further to reflect the effect of future inflation.
2. The starting pot size, salary and contribution is the average value appropriate to the youngest / average member respectively.
3. The future contributions are based on the average salary and contribution rate appropriate to the relevant member (youngest/average).
4. Values shown are purely illustrative and are not guaranteed.

4. Value for Money

The Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members.

Underpinning the Trustee's assessment of value is the belief that value is about using the resources at its disposal effectively to help members achieve good outcomes for life after work. Also, while some measures of value should be scrutinised carefully over the short-term (for example, the performance of the Fund administrator), the Trustee believes that others, such as the suitability and performance of investment funds, span several years. Additionally, some components of member value can be assessed quantitatively, but those that impact on members' experience of the Fund and its services often require a more qualitative assessment.
The Trustee has concluded, following receipt of a report from its independent DC adviser, that in relation to member-borne deductions, the Fund offers good value for money relative to its peers.

The reasons underpinning this conclusion include:

- Members bear the investment fees whilst the employer meets other general running costs such as communication and administration costs.

- Charges for the Fund's default investment arrangement are significantly below the charge cap of 0.75% per annum;

- Investment fund charges have been assessed by the Trustee as comparing favourably with those of peer funds;

- The performance of the investment funds over the five-year period to 31 March 2019 compares favourably relative to benchmarks.

Members are also in receipt of additional benefits, for example:

  – The Trustee board's advisory costs are borne entirely by the Fund.

  – Access to Mercer OneView, an online portal that allows members to view their account balances, notify the Trustee of any change to their personal data, change their investment strategy and model future benefit outcomes.

  – Access to the pensions team and also additional member communication services including pension presentations and the production of notices, leaflets and other explanation material.

5. Trustee knowledge and understanding

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

The Trustee is also required to explain how the combined knowledge and understanding of its Directors, together with the advice which is available to them, enables them to properly exercise their functions as Trustee of the Fund. This requirement has been met during the course of the year to 31 March 2019 as follows:

- The Trustee has undertaken ongoing training within its regular meetings to keep abreast of relevant developments, including dedicated training on investments specific to each stage of the transition to Mercer Workplace Savings funds.

- The Trustee regularly reviewed its training needs.

- The Trustee also receives advice from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers.

- The Trustee meeting agendas are prepared by professional advisers who do so with a view to ensuring compliance and best practice.

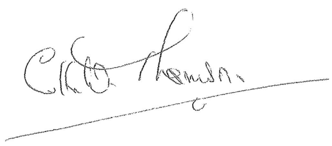
- The Trustee receives detailed quarterly investment reports from its professional adviser.

- The Trustee receives a briefing on pension legislation and relevant regulatory developments at each meeting.

The Trustee of the Fund will also, on an ongoing basis, review and assess whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's Code of Practice 13.

Chair's declaration

I confirm that the above statement has been produced by DC Thomson & Co Pension Trustee Limited.



Signature:

Name: Christopher HW Thomson

Chairman of DC Thomson & Co Pension Trustee Limited
September 2019

Appendix
Statement of Investment Principles effective March 2017