

ABBEEY LIFE ASSURANCE COMPANY LIMITED STAFF PENSION SCHEME

CHAIRMAN'S STATEMENT for the period 1st April 2018 to 31st March 2019

Annual Chairman's Statement for the Abbey Life Assurance Company Limited Staff Pension Scheme – AVC arrangements

The Occupational Pension Scheme (Charges and Governance) Regulations 2015 require the Trustee to prepare an annual statement regarding governance, which should be included in the Annual Report.

This is the fourth Chairman's statement prepared by the Scheme and covers the period from 1 April 2018 to 31 March 2019.

This statement covers governance and charge disclosures in relation to the following:

- The default arrangement;
- Processing of core financial transactions;
- Member borne charges and transaction costs;
- Value for Members; and
- Trustee knowledge and understanding.

In view of the size of the Scheme, the Trustee has taken a pragmatic and proportionate approach on governance.

1. The Default Arrangement

The Trustee is required to select a suitable default arrangement in Members' interests and keep it under review. The Trustee will need to take account of the level of costs and the risk profile that are appropriate for the Scheme's membership in light of the overall objective of the default arrangement.

The default investment arrangement is provided for Members who have made no current investment instruction or for whom the Trustee may hold unallocated funds from time to time. Members can also choose to invest in the default investment arrangement which is set up by the Trustee.

The objective of the Default Investment Vehicle is defined in the Scheme's Trust Deed and Rules as *"an Investment Vehicle with an investment objective which aims to preserve capital whilst aiming to provide a return on investments similar to that which might be achieved on cash deposits in a bank or building society or money market funds"*.

The Trustee's objectives regarding the default arrangement are therefore to broadly aim to provide capital preservation whilst achieving cash deposit returns before the application of charges.

The default arrangement for the Scheme during the period was the Standard Life Deposit and Treasury Fund. The Statement of Investment Principles for the default arrangement (Default Arrangement SIP) has been in place since October 2015, and is appended to this statement. It sets out in further detail the Trustee's aims and objectives in relation to the default arrangement. The Default Arrangement SIP was last reviewed in July 2019, following the Trustee's review of the default arrangement. Following the review, it was considered that the default arrangement continues to be appropriate for the Scheme based on the objectives and past performance of the fund, and the Scheme's membership profile.

The last formal review was completed in July 2019. The review took into account the needs of the membership (i.e. the review was based on an understanding of the membership as well as the investment objectives of the fund to align with the Trustee's aims and objectives of the default arrangement).

CHAIRMAN'S STATEMENT (continued)

The Trustee undertakes a review of the funds available to members every three years, which includes a review of the performance of the default arrangement to ensure that the Standard Life Deposit and Treasury Fund is performing in line with its intended objective. If the Standard Life Deposit and Treasury Fund is not meeting its objective, then this would be highlighted and, depending on the cause, may trigger the Trustee to conduct an out-of-cycle review of the default arrangement.

Following the 2019 review of the default arrangement, which took account of the aims and objectives of the fund, the fund's performance against Sector and Benchmark, the costs and charges of the fund, and consideration of the Scheme's membership, the Trustee concluded that the default arrangement remains appropriate for the Scheme.

The next formal review will be carried out in the 2021/22 Scheme year.

The Trustee undertook a wider review of the Scheme's fund range in 2017. It was concluded that the range of open funds provide good value for Members. The Trustee will keep the fund range under review and take appropriate action in the event that any funds are deemed no longer suitable.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of Member assets into and out of the Scheme, transfers between different investments within the Scheme, and payments to and in respect of Members), are processed promptly and accurately. The Trustee includes, but does not limit to, the following as the Scheme's core financial transactions:

- *the receipt and investment of Member contributions;*
- *transfer of Member assets into and out of the Scheme;*
- *transfer of assets between different investments within the Scheme; and,*
- *payments to and in respect of Members.*

The core financial transactions are undertaken on the Trustee's behalf by Equiniti, who provide the administration services for the DC Section of the Scheme (this includes AVCs). A Service Level Agreement (SLA) with Equiniti is included in the contract with them and is updated as needed to ensure it is fit for purpose and reflects the Trustee's needs. The SLA covers the accuracy and timeliness of all core financial transactions and is monitored by the Trustee through the quarterly administration reports Equiniti prepare.

As part of their checking process, Equiniti carry out monthly checks, in addition to daily reconciliation of the Trustees' bank account. All investment and banking transactions are also checked and verified before being processed. All work processes are documented and subject to a peer review process, with work being calculated and independently checked by another member of the team. The Trustee has reviewed the processes and controls implemented by Equiniti. A regular review process also involves Equiniti providing quarterly core financial transaction metrics to the Trustee to review at its regular meetings, compared to target processing times.

The Trustee has reviewed the processes and controls implemented by Equiniti and consider them to be suitably designed and meeting required levels. Controls around administration and the processing of transactions are documented in the Scheme risk register, which is regularly reviewed.

CHAIRMAN'S STATEMENT (continued)

There have been no administration service issues with respect to core financial transactions which need to be reported.

The service levels reported by Equiniti were at a level deemed acceptable by the Trustee and there were no concerns raised.

The fund platform and AVC providers used by the Scheme interact with the administrator in relation to core financial transactions and provide additional information on their processes and transactions as required. The Trustee expects Equiniti to notify it of any delays or errors it encounters in the processing of core financial transactions relating to AVCs

During the year there were no administration issues with respect to the AVC arrangements that need to be reported.

In light of the above, the Trustee is satisfied that there are processes in place to ensure that all core financial transactions for the DC arrangements are processed in an accurate and timely manner.

3. Member Borne Charges and Transaction costs

The Trustee regularly monitors the level of charges borne by Members through the funds. These charges comprise:

- *express explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio (TER);*
- *implicit charges, such as the costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio, also known as transaction costs.*

The costs of membership of the Scheme comprise TERs and Transaction Costs. Information on the explicit charges applicable to the funds offered by the Scheme, including the funds underlying the default arrangement, is communicated to Members on a regular basis.

Explicit charges

Explicit charges are represented by the TER, which is a fixed annual charge, these are illustrated in Appendix 1.

The default arrangement has levied a TER of 0.61% p.a of assets under management, which was well below the statutory charge cap of 0.75% p.a, for all members during the period.

In addition, there is a range of self-select funds with varying risk profiles and charges that are available to members as alternatives to the default arrangement. These funds attracted TERs of between 0.0% p.a. and 1.20% p.a. of assets under management. The individual TERs applicable to each fund are listed in Appendix 1.

Implicit charges

The requirement for fund managers to calculate and disclose transaction costs using a method prescribed by the Financial Conduct Authority was introduced on 3 January 2018. Fund managers calculate transaction costs at fund-level not scheme-level therefore the Trustee requested details of transaction costs for the relevant period from the Scheme's providers.

CHAIRMAN'S STATEMENT (continued)

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'.

This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else.

The transactions costs for the default arrangement was 0.0901% p.a. of assets under management.

The self-select funds attracted transaction costs of between 0.0% p.a. and 0.3493% p.a. of assets under management. A full list of applicable transaction costs is contained in Appendix 1. We have not received all of the transaction costs information from Scottish Widows. The Trustee and their advisers are in ongoing discussions with Scottish Widows to obtain the outstanding information and, once received, this will be included in future statements.

Illustrations to show the cumulative effect of costs and charges on member fund values over time

From 6 April 2018, the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustees and managers of a relevant scheme. These changes are intended to improve transparency on costs. As part of the changes, the Trustee is required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits.

The next few pages contain illustrations of the cumulative effect of costs and charges on the value of member savings within the Scheme over a period of time. The illustrations have been prepared having regard to statutory guidance.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. The assumptions are explained in the notes sections below the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future.

CHAIRMAN'S STATEMENT (continued)

The illustrations provided

Each of the charts and tables below illustrates the potential impact that costs and charges might have on different investment options provided by the Scheme. Not all investment options are shown in the illustrations. The Trustee has chosen the following illustrations:

- charts showing the potential impact that costs and charges might have for 2 example members who have assets invested in the Standard Life Deposit and Treasury Fund (the default strategy).
- under each chart, a table showing the potential impact that costs and charges might have if the example member were invested in a higher risk profile fund which has a lower level of costs and charges compared to the one illustrated in the chart and a lower risk profile fund that has a higher level of costs and charges compared to the one illustrated in the chart.

The Trustee has determined the example members for whom illustrations have been provided as the youngest deferred member and a deferred member of average age (ages determined using data for the Scheme). The current fund values chosen for the illustrations are the median pot sizes held by members in the default arrangement (the Standard Life Deposit and Treasury Fund).

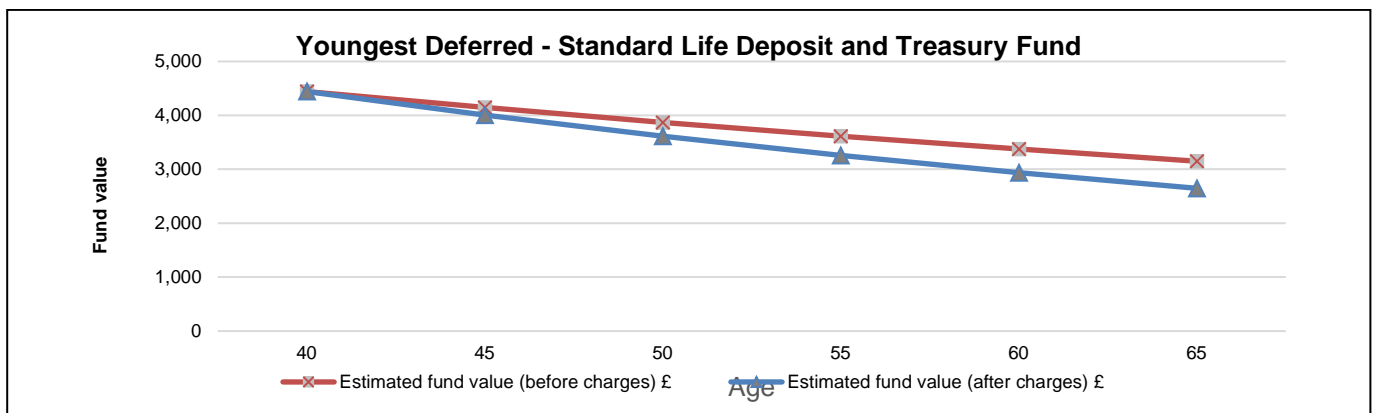
A large proportion of members are invested in the default, the Standard Life Deposit and Treasury Fund. We therefore chose this option for these illustrations. Members are also offered a range of self-select funds which, as the tables in Appendix 1 show, carry a variety of TERs and transaction costs.

CHAIRMAN'S STATEMENT (continued)

Example member 1

The illustration below is based on a deferred member 25 years from normal retirement at age 65, with a current fund value of £4,442 and no further contributions. The graph below shows the cumulative effect of costs and charges on the member's fund value for an investment in the default arrangement.

The effect of the reduction of charges is more pronounced as fund values are shown against their relevant spending power in today's terms. Returns for cash instruments have historically been very low and, after the reduction for charges, some members may incur capital erosion. The projections illustrate that members invested in the default arrangement will see their fund values fall due to inflation being higher than our assumed cash returns (2.5% p.a. vs 1.1% p.a.). Members may want to consider reviewing their fund options if they are invested in the default arrangement to ensure it is appropriate for their personal circumstances.



As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in a higher risk profile fund (Standard Life North American Equity Fund), which has a higher level of costs and charges and a higher risk profile (expected return), and the Scottish Widows UK Equity Fund which has a lower level of costs and charges and a higher risk profile (expected return).

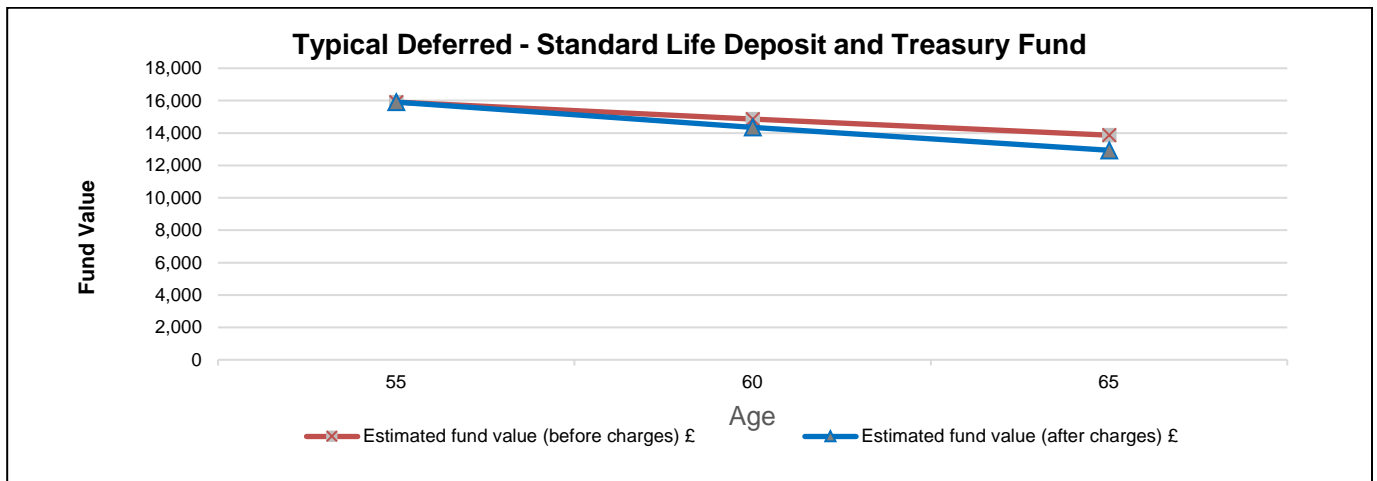
Age	Standard Life Deposit and Treasury Fund			Standard Life North American Equity Fund			Scottish Widows UK Equity Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
40	4,442	4,442	-	4,442	4,442	-	4,442	4,442	-
45	4,147	4,005	142	5,279	5,123	156	5,430	5,346	84
50	3,871	3,611	260	6,273	5,909	364	6,637	6,435	202
55	3,614	3,256	358	7,455	6,815	640	8,113	7,745	368
60	3,374	2,936	438	8,859	7,860	999	9,917	9,321	596
65	3,150	2,647	503	10,529	9,066	1,463	12,123	11,219	904

CHAIRMAN'S STATEMENT (continued)

Example member 2

The illustration below is based on a deferred member 10 years from normal retirement at age 65, with a current fund value of £15,911 and no further contributions. The graph below shows the cumulative effect of costs and charges on the member's fund value for an investment in the default arrangement.

The effect of the reduction of charges is more pronounced as fund values are shown against their relevant spending power in today's terms. Returns for cash instruments have historically been very low, and after the reduction for charges, some members may incur capital erosion. The projections illustrate that members invested in the Default Arrangement will see their fund values fall due to inflation being higher than our assumed cash returns (2.5% p.a. vs 1.1% p.a.). Members may want to consider reviewing their fund options if they are invested in the Default Arrangement to ensure it is appropriate for their personal circumstances.



As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below, we show projected values if the example Member were invested in a higher risk profile fund (North American Equity Fund), which has a higher level of costs and charges and a higher risk profile (expected return), and the Scottish Widows UK Equity Fund, which has a lower level of costs and charges and a higher risk profile (expected return).

Age	Standard Life Deposit and Treasury Fund			Standard Life North American Equity Fund			Scottish Widows UK Equity Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
55	15,911	15,911	-	15,911	15,911	-	15,911	15,911	-
60	14,854	14,347	507	18,908	18,351	557	19,449	19,150	299
65	13,867	12,936	931	22,470	21,166	1,304	23,774	23,049	725

CHAIRMAN'S STATEMENT (continued)

The following assumptions have been made for the purposes of the above illustrations:

1. *Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;*
2. *Inflation is assumed to be 2.5% each year;*
3. *No assumption made for real salary growth;*
4. *Values shown are estimates and are not guaranteed;*
5. *The assumed growth rates reflect 10-year annualised returns (gross of costs and charges) and are as follows:*
 - *Deposit and Treasury Fund 1.1% p.a.*
 - *North American Equity Fund 6.1% p.a.*
 - *UK Equity Fund 6.7% p.a.*

Members are advised to consider both the level of costs and charges and the expected return on assets (i.e. the risk profile of the strategy) in making investment decisions and not in isolation.

4. Value for Members

The Regulations require the Trustee to make an assessment of charges and transactions costs borne by Members and the extent to which those charges and costs represent good value for money for Members.

There is no regulatory definition of "good value" and the process of determining this for Members is a subjective one. Based on advice from the Scheme advisors, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the Member borne charges deliver good Value for Members. The assessment is relevant to the current membership. The cost part of the analysis considers the costs and charges Members pay. The benefit side of the analysis considers the quality of Scheme Governance and Management, the quality of Scheme Administration, the quality of Scheme Investments, and the quality of Scheme Communications. In assessing the quality of the Scheme across these different areas, the Trustee has taken account of the Pensions Regulator's DC Code of Practice, along with considering general market practices and comparisons.

The members pay investment charges as detailed above. The remaining charges (including administration, governance and advisory fees) are borne by the Company. The Trustee considers this is as an additional valuable benefit for members.

The Trustee regards the most important aspect of value to members to be making available a range of suitable investment options with competitive charges from which members are able to choose.

Members of the Scheme have a range of investment options to choose from; each option has a different associated charge. The Trustee has certain powers afforded by the Scheme's Trust Deed and Rules in relation to making changes to the investment options available to members. The Trustee has exercised these powers on a number of occasions in the past by closing funds to new contributions.

A review of the fund range available to members took place in November 2017. It concluded that the fund range covers the majority of asset classes, and that the costs and charges borne by members in those funds that remain open to further contributions represent good value for Members.

CHAIRMAN'S STATEMENT (continued)

Whilst some of the AVC funds carry higher charges, all of the funds are reviewed regularly and those that are regarded as representing poor value for Members, either due to high charges (or in some cases, sustained poor performance) may be closed to new contributions. The fund range includes other options for members to choose from that carry lower charges.

The Trustee will continue to monitor and review triennially the ongoing suitability of these legacy arrangements. The Trustee will also continue to communicate regularly with Members to ensure that they are aware of the investment options available to them and to encourage them to review their investment choices regularly to ensure that they remain appropriate to their individual circumstances.

5. Trustee Directors' Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as a Trustee properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The Scheme is managed by 5 Trustee Directors; 3 Trustee Directors are appointed by the Principal Employer, and there are 2 Member Nominated Directors. The composition of the Trustee board is compliant with Regulatory requirements and demonstrates diversification of skills and breadth and depth of pension knowledge.

All Trustee Directors are made aware of the training resources available throughout the Scheme year and undertake additional training as required. Training undertaken by each Trustee Director is recorded within the Trustee Training Log. Trustee Directors are familiar with the key Scheme documents (including the Trust Deed and Rules, Statement of Investment Principles, and other scheme management documentation) and are able to access these documents within the Trustees' secure online portal. Scheme documents are reviewed by the Trustee on a regular basis.

All new Trustee Directors are also expected to complete the Regulator's Trustee Toolkit within a reasonable period from the date of their appointment. The Trustee Directors have also put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs.

In addition to the knowledge and understanding of the Trustee board, the Trustee receives advice from its appointed advisers where any gaps are identified. The Trustee has engaged with their appointed professional advisers throughout the year to ensure that they run the Scheme effectively and exercise their functions properly (and including managing trustee succession planning). Agenda-specific training is provided by the Scheme's advisers during Board meetings and during the scheme year, the Trustee has, amongst other things:

- Discussed the DC Chair's Statement framework and action plan;
- Reviewed the Scheme's default arrangement. The Trustee will review the other fund options in more detail in 2020 as part of the self-select fund review;
- Reviewed administration reports from Equiniti, to monitor service delivery against agreed service levels;
- Ensured that an audit of the Trustee's Report and Accounts was carried out for the Scheme year ended 31 March 2019;
- The Trustee Directors have also attended DC related seminars and training sessions over the period;

CHAIRMAN'S STATEMENT (continued)

- The Trustee works closely with its appointed professional advisers throughout the year, who have provided specialist advice and updates on legislation, guidance and best practice developments to ensure that it exercises properly its functions as Trustee Directors;
- The Trustee also has in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs periodically to determine training requirements for the next Scheme year. A training log is maintained for each Trustee Director.

Considering the training activities completed by the Trustee Board together with the professional advice available to the Trustee, the Trustee considers that it meets the Pension Regulator's requirements (as set out under Code of Practice No 7) and is confident that the combined knowledge and understanding of the Trustee Board, together with the input from its specialist advisers, enables it to properly exercise its functions as the Trustee of the Scheme.

Signed on behalf of the Trustee of the Abbey Life Staff Pension Scheme

Original Signed by Neil C H Tointon

Neil C H Tointon
Chairman of the Trustee Board
25 September 2019

CHAIRMAN'S STATEMENT (continued)

Appendix 1 – TER information for all Scheme funds

Scottish Widows

Fund Name (14 available funds)	Total Expense Ratio (% p.a.)	Transaction Costs (% p.a.)
Building Society	0.00	Undisclosed
Consensus	0.00	Undisclosed
UK Equity	0.00	0.3300
Global Equity	0.00	Undisclosed
International Equity	0.05	Undisclosed
Indexed Stock	0.00	Undisclosed
Environmental	0.00	0.1900
Mixed	0.03	Undisclosed
Property	0.12	Undisclosed
North American	0.00	Undisclosed
SSgA UK Equity Index	0.01	0.0100
Japanese Fund	0.00	0.0900
Cash Fund	0.00	0.0300
SW Abbey Retirement Fund ²	0.30 ¹	Undisclosed

Source: Scottish Widows

1. There is an administration charge of £1,500 p.a. paid by the Scheme
2. Fees as at Q2 2019, there is a reduction in Annual Management Charges of 1%.pa for funds. Charges are shown net of the reduction.
3. Closed to future contributions and switches in

Standard Life

Fund Name (18 available funds)	Total Expense Ratio (%)	Transaction Costs (% p.a.)
Active		
Managed	0.62	0.1205
European Equity	0.62	0.0218
Money Market	0.61	0.0116
UK Equity	0.61	0.1393
Annuity Purchase Fund	0.61	0.1177
Stock Exchange Pension Fund	0.63	0.0913
Far East Equity Pension Fund	0.63	0.1269
Japanese Equity Pension Fund	0.62	0.3493
North American Equity Pension Fund	0.61	0.0228
Property Pension Fund	0.63	0.0944
International Equity Pension Fund	0.62	0.0678
Mixed Bond Pension Fund	0.61	0.0580
Asia Pacific ex Japan Equity Pension	0.63	0.0088
Deposit and Treasury Pension Fund	0.61	0.0901
Ethical Pension Fund	0.63	0.1086
Global Absolute Return Strategies Pension Fund	1.20	0.3180
Passive		
Overseas Tracker Pension Fund	0.61	0.0456
HSBC Amanah Global Equity Index Pension Fund	0.90	0.0000

Source: Standard Life

CHAIRMAN'S STATEMENT (continued)

Appendix 2 – Default arrangement SIP

Abbey Life Assurance Company Limited Staff Pension Scheme **Statement of Investment Principles for the default arrangement**

This Statement of Investment Principles for the default arrangement ("**default arrangement SIP**") covers the default arrangement within the Abbey Life Assurance Company Limited Staff Pension Scheme (the "**Scheme**") and applies to Additional Voluntary Contributions ("**AVCs**").

This default arrangement SIP should be read as an addendum to the main Statement of Investment Principles ("**Main SIP**") for the Scheme, a copy of which is available on request.

If there is any difference between the default arrangement SIP and the provisions of the Trust Deed of the Scheme, the provisions of the Trust Deed will prevail (including any amendments to the Trust Deed from time to time).

The Scheme has identified the default arrangement as the Standard Life Deposit and Treasury Pension Fund in relation to AVCs.

Trustee's Aims and Objectives in respect of the default arrangement

The Trustee's objective is to invest the assets held in respect of Members of the Scheme for and from whom there is no current investment instruction in an investment vehicle, which has as its aims:

- 1) as far as possible to preserve capital value; and*
- 2) to provide a return on investment similar to that which might be achieved on cash deposits in a bank or building society or money market funds.*

Explanation of how the Trustee's Aims and Objectives are intended to ensure that the default arrangement is invested in the best interest of Members

This default arrangement protects the capital value of the Member's fund, until the Member gives a valid investment instruction to the Trustee. With the benefit of investment advice, the Trustee has determined that the Standard Life Deposit and Treasury Pension Fund is the appropriate investment vehicle for these purposes.

The Trustee will review the ongoing appropriateness of the default arrangement with reference to these aims including the extent to which the return on investments relating to the default arrangement (after deduction of any charges relating to those investments) is consistent with the Trustee's aims and objectives, through its process of regular reviews of the Scheme's investment options.

The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended are those set out in the Main SIP as they apply to the default arrangement.