THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 JANUARY 2018 – 31 DECEMBER 2018

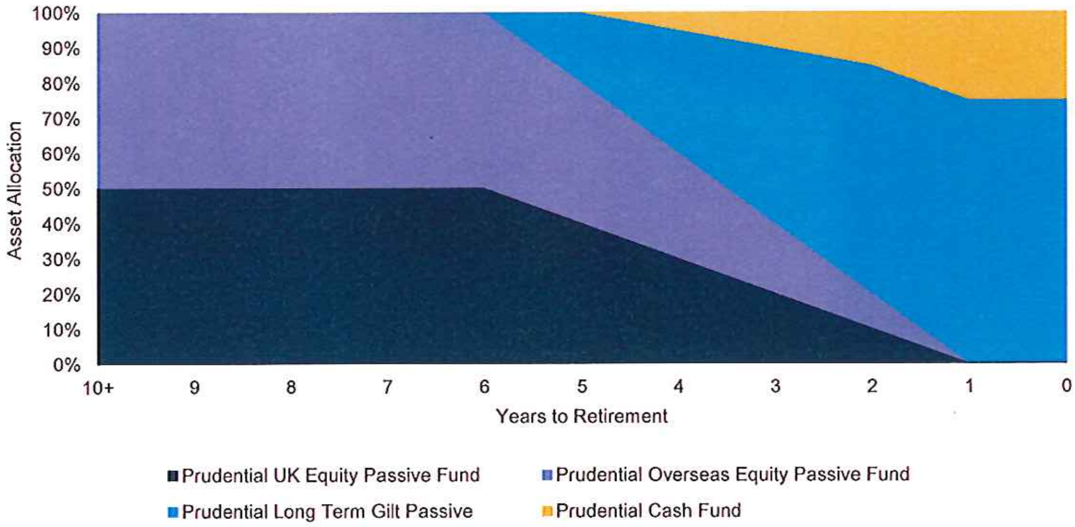
This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the Henry Butcher & Co Pension Fund and Life Assurance Scheme ("the Scheme") is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (i.e. Defined Contribution schemes – DC).

Default arrangement

Members of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement chosen by the Trustee with the advice of their Investment Consultant.

The default strategy invests in the Prudential UK Equity Passive Fund and the Prudential Overseas Equity Passive Fund at a ratio of 50:50 up until a member is 6 years from retirement. These equity funds expose members' savings to a high level of potential growth at a time when they can afford to take on more risk. Once members are 6 years from retirement, their assets are gradually moved out of the equity funds and into the Prudential Long Term Gilt Passive Fund and the Prudential Cash Fund, so that at retirement there is a 75:25 split between these two funds. This strategy is tailored towards members who will withdraw their 25% tax-free lump sum and purchase an annuity with the remainder of their savings.

This strategy can be illustrated using the following graph:



The default arrangement is described in further detail in the Scheme's Statement of Investment Principles (SIP) which was last reviewed by the Trustees on 16 March 2016 and a copy of which is submitted alongside this governance statement.

During the period covered by this statement there have been no significant changes to the Scheme's investment strategy. The SIP and the default strategy will be reviewed a minimum of every three years and a review is therefore overdue. The Trustees have been undertaking a detailed review of the DC Section and the best strategy for the future to ensure good member outcomes. These discussions are well advanced and a decision has been taken in principle to close the DC Section completely and transfer out all of the DC assets into arrangements that offer more flexibility and choice for the members in the long term.

In the meantime, the Trustees monitor the performance of the default investment strategy in both a qualitative and quantitative manner. From a qualitative perspective, the Trustees are currently reviewing the Scheme's default offering relative to other strategies available within the market, considering investment factors as well as the transparency and information which can be provided to members of the Scheme. From a quantitative perspective, the Trustees consider the investment performance of each of the underlying funds within the default offering relative to there individual investment objectives and targets.

This Statement will be published on a publically available website and will be signposted in the annual benefit statements.

Processing Scheme transactions

The Trustees have a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include 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.

These transactions over the period covered by this statement were undertaken on the Trustees' behalf by the Scheme administrator and investment manager Prudential Global Investment Management. The Trustees periodically review the processes and controls implemented by those organisations, and consider them to be suitably designed to achieve these objectives. The Trustees had a service level agreement (SLA) in place with the Scheme administrator which covered the accuracy and timeliness of all core transactions and received regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include dynamics checklists, a central financial control team separate to the admin team and daily monitoring of bank accounts. The Trustees are not aware of any issues relating to the processing of Scheme transactions during the period covered by this statement. The Trustees monitor performance against the SLA on a regular basis.

We will also perform periodic assessments of methods and efficiency of the Scheme's administrators and will challenge them in terms of efficiency using available facilities including technological functionality.

In light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

Charges and transaction costs – default arrangement and additional funds

The law requires the Trustees to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report.

Details of the Total Expense Ratios (TERs) payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)*
Prudential UK Equity Passive Fund	0.550	0.31
Prudential Overseas Equity Passive Fund	0.550	0.01
Prudential Long Term Gilt Passive	0.550	-0.13
Prudential Cash Fund	0.650	0.00

Source: Prudential. *Transaction costs shown are an average over the last 5 years.

This is lower than the maximum TER allowed of 0.75% for default arrangements.

The Trustees also make available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments and attract annual charges and transaction costs as follows:

Fund	TER (%)	Transaction Cost (%)
Prudential UK Equity Passive Fund	0.550	0.31
Prudential Overseas Equity Passive Fund	0.550	0.01
Prudential Long Term Gilt Passive	0.550	-0.13

Prudential Cash Fund	0.650	0.00
Prudential All Stocks Corporate Bond	0.650	-0.10
Prudential Discretionary Fund	0.650	-0.07
Prudential Ethical	0.660	-0.03
Prudential International Equity	0.670	0.08
Prudential M&G UK Equity Pension Fund	0.660	-0.04
Prudential UK Property	1.22	0.26

Source: Prudential. *Transaction costs shown are an average over the last 5 years.

The 0.75% fee cap only applies to the default arrangement; hence some of the funds above exceed this amount.

We are comfortable that the costs for the default arrangement and self-select funds are reasonable both in terms of the outcomes the funds are targeting and the fees in the wider market applicable to similar investment strategies.

Cumulative effect of charges

The compounding effect of charges on an active member's fund can be illustrated as follows:

Illustrations for an "Average" member								
	Default Strategy ***(most popular option)***		**Prudential Overseas Equity Passive Fund** ***(highest expected return fund)***		**Prudential Long Term Gilt Passive** ***(cheapest and lowest expected return fund)***		**Prudential UK Property** ***(most expensive fund)***	
Years from now	**Before Charges**	**After Charges and costs deducted**	**Before Charges**	**After Charges and costs deducted**	**Before Charges**	**After Charges and costs deducted**	**Before Charges**	**After Charges and costs deducted**
1	£123,887	£123,046	£123,887	£123,224	£117,918	£117,282	£122,280	£120,538
3	£140,597	£137,818	£140,597	£138,402	£121,686	£119,781	£135,322	£129,758
5	£158,637	£153,547	£158,637	£154,611	£125,367	£122,196	£149,034	£139,173
7	£173,025	£165,563	£178,112	£171,920	£128,962	£124,528	£163,451	£148,789
10 (retirement)	£182,168	£171,739	£210,268	£200,112	£134,198	£127,879	£186,477	£163,596
Total Fees	£9,854		£8,644		£6,653		£20,534	

Illustrations for a "Young" member								
	Default Strategy ***(most popular option)***		**Prudential Overseas Equity Passive Fund** ***(highest expected return fund)***		**Prudential Long Term Gilt Passive** ***(cheapest and lowest expected return fund)***		**Prudential UK Property** ***(most expensive fund)***	
Years from now	**Before Charges**	**After Charges and costs**	**Before Charges**	**After Charges and costs**	**Before Charges**	**After Charges and costs**	**Before Charges**	**After Charges and costs**

		deducted		deducted		deducted		deducted
1	£123,887	£123,046	£123,887	£123,224	£117,918	£117,282	£122,280	£120,538
3	£140,597	£137,818	£140,597	£138,402	£121,686	£119,781	£135,322	£129,758
5	£158,637	£153,547	£158,637	£154,611	£125,367	£122,196	£149,034	£139,173
10	£210,268	£197,471	£210,268	£200,112	£134,198	£127,879	£186,477	£163,596
15	£272,792	£248,856	£272,792	£253,731	£142,525	£133,093	£228,915	£189,335
20	£338,474	£300,321	£348,505	£316,919	£150,375	£137,876	£277,015	£216,462
23 (retirement)	£346,989	£303,616	£401,398	£360,122	£154,868	£140,554	£308,904	£233,436
Total Fees	£33,603		£28,443		£16,175		£58,399	

It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" and "Younger" members' pots at retirement would be £119,816 and £123,558 respectively in today's money.

Assumptions

The above illustrations have been produced for an "average" member and a "young" member of the Scheme based on the Scheme's membership data. The "Default Strategy" illustration assumes the member's asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member's assets are invested in that fund up to the Scheme retirement age. The results are presented in real terms, i.e. in today's money, to help members have a better understanding of what their pension pot could buy in today's terms, should they invest in the funds above as shown.

You will note that the total fee figure is lower than the difference between the pot size before and after fees. The total fee reflects what has actually been taken from the pot to pay for the management of assets and other expenses, whereas the difference between before and after fee pot values reflects the effect of compounding.

Age	
• "Average" member	53 *(the average age of the Scheme's membership)*
• "Young" member	40 *(the youngest member of the Scheme)*
Scheme Retirement Age	63
Starting Pot Size	£116,000 *(median pot size of the Scheme's membership)*
Starting Salary	£29,588 *(the average UK salary in 2018 according to the Office for National Statistics, as Scheme data was unavailable)*
Inflation	2.5% p.a.
Rate of Salary Growth	2.5% p.a.
Employer annual contributions	6% p.a.
Employee annual contributions	5% p.a.
Expected future nominal returns on investment:	
• Default Strategy	
o Prudential UK Equity Passive Fund	4.0% above inflation
o Prudential Overseas Equity Passive Fund	4.0% above inflation
o Prudential Long Term Gilt Passive	1.2% below inflation

o Prudential Cash Fund	1.0% below inflation
• Prudential Overseas Equity Passive Fund	4.0% above inflation
• Prudential Long Term Gilt Passive	1.2% below inflation
• Prudential UK Property	2.6% above inflation

Value for Members

Albeit no formal value for money assessment has been carried out over the reporting period, the Trustees have a good understanding of the membership demographics of the Scheme and as such have a view as to what good member outcomes should look like for the Scheme's members in aggregate. We understand that value for money does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for money we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds. With this in mind, the Trustees have assessed the fees disclosed above and we are satisfied that we have negotiated a good deal for members and that the stated explicit charges for the Scheme's funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile.

Additionally, during the year covered by this statement the Trustees conducted a review of their advisers as part of normal good governance. We interviewed a number of different consultancy firms as part of a formal process and decided to appoint JLT (now Mercer) with effect from 1 November 2018. The Trustees made their decision based upon an assessment of services, people and value for money.

The Trustees have also considered if winding-up the Scheme into a Master Trust or Group Personal Pension arrangement would provide better value for money for members and may investigate this option further in the medium-term.

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Additional Voluntary Contributions (AVCs)

The Trustees also make available a facility to members to pay in additional contributions to boost Defined Benefit section benefits. The AVC arrangements are reviewed at the same time as the review of the main Scheme benefits. The facility is provided via Royal London (formerly Scottish Life) and has been closed to new contributions since March 2009. Royal London were unable to provide the relevant TERs and transaction costs in time to be included in this statement, but the Trustees will continue to challenge them to obtain the required information.

Trustees' 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 trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

The Trustees review their training needs at every trustee meeting and maintain a trustee training log. The Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors was one of the key criteria that the Trustees considered when formally reviewing their advisors during 2018. The Trustees include legislative updates and Trustee Knowledge and Understanding on the agenda for each of their meetings.

Over the course of 2018, two new Trustees were appointed both of whom are in the process of completing the Pension Regulator's Trustee Toolkit. The sole continuing Trustee has completed the Toolkit. All the Trustees are also expected to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles and take professional advice, where appropriate, when interpreting these documents. An example of this recently was the review of the Rules by Squire Patton Boggs for the purposes of considering the transfer of the Scheme's DC assets and closure of the DC section.

Notwithstanding the disruption to the Trustee board during 2018 and the process of appointing new consultants, actuaries and administrators, the Trustees received dedicated training and guidance throughout the year. Aon delivered training at Trustee meetings on Integrated Risk Management as well as guidance on the General Data Protection Regulation and DC governance requirements. Following the appointment of JLT/Mercer in November 2018, the Trustees received training from their Scheme Actuary on funding and the triennial actuarial valuation process and their investment consultant provided an introduction on Environmental, Social and Governance investment considerations that has since been followed up with formal training. Two of the Scheme's new Trustees also participated in a dedicated DB training day run by Aon.

Now that the Trustee board is settled and the new advisers fully in place, JLT/Mercer have been asked to carry out a Trustee effectiveness survey and to prepare a full Risk Register. This work will be progressed during Q3 and Q4 2019 and will provide the Trustees with better insight as to their training needs as well as into the areas of Scheme governance that may need attention or further assessment.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustees consider that we are enabled properly to exercise our functions as Trustees of the Scheme.

In addition, while most schemes simply focus on trustee training and use of advisers, we believe that knowledge and understanding should also be extended to awareness of member demographics and member behaviour otherwise trustees cannot be certain that a scheme remains fit for purpose. The ongoing review of the DC Section of the Scheme is designed to reflect better member needs in the context of Pension Freedoms and the perceived needs of the membership.

Given the extent of the training above, the Trustees are comfortable that we have demonstrated sufficient knowledge of the law relating to pension schemes and trusts and the principles relating to the funding and investment of pension schemes. I am also satisfied that the Trustees have demonstrated a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out the Trustees' current policies.

The Chair's statement regarding DC governance was approved by the Trustees and signed on their behalf by:

Mr Terry Edmondson

Chair of the Trustees

Date: 30/07/2019