

DEFINED CONTRIBUTION GOVERNANCE STATEMENT

The RHM Pension Scheme ('the Scheme') is a defined benefit scheme. However, some members have a Defined Contribution ('DC') protected rights underpin, which may or may not come into payment when they take benefits. The Scheme also holds members' additional voluntary contributions ('AVCs'). The Trustee is therefore required to publish a DC governance statement, which must be included in the Trustee's annual report.

This statement covers the period 1 April 2019 to 31 March 2020. It has been drafted in conjunction with our advisers, Aon, and describes how we, (the Trustee Directors of the Scheme) have met the statutory governance standards in relation to:

- The Default Investment Strategy,
- Processing of core financial transactions,
- Charges and transaction costs paid by members, value for members, and
- Trustee knowledge and understanding.

1. Default Investment Strategy

The Trustee is responsible for the governance of the Scheme's investments. The Scheme's Statement of Investment Principles (SIP) has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. It is included from page 53. The SIP governs decisions about the Scheme's investments and sets out the aims and objectives of the Scheme's investment strategy.

The Scheme is not, and has never been, used as a qualifying scheme for automatic enrolment purposes.

For certain members who were in contracted-out service before 1 July 2011, notional DC 'Protected Rights Accounts' are retained. Effectively, this notional account represents a DC underpin; it works as a "backup", by providing alternative benefits if member's main scheme benefits are lower than the value of this notional account.

The funds that will provide the DC protected rights underpin (if it is payable) are invested with the Scheme's main assets (i.e. those used to meet defined benefit liabilities). Members who have a DC protected rights underpin have no choice over the way in which these benefits are invested, therefore the Scheme's investment strategy represents the default investment strategy for these funds. The investment strategy is driven by the Scheme's defined benefit liabilities, rather than the DC protected rights underpin, which may or may not be triggered when members take benefits. The performance of the Scheme's assets is reported on page 16.

The Trustee aims to review the investment strategy at least every three years. The Trustee started its latest review of the investment strategy in the previous Scheme year and this is ongoing. The review identified that there was some scope to de-risk the Scheme, the implementation of which commenced with the sale of the quoted equity holdings in late 2019. Other de-risking opportunities continue to be assessed by the Trustee.

The Trustee's Investment and Funding Committee (the 'IFC') reviews the performance of the Scheme's main investments quarterly. These reviews include assessing the extent to which investment performance is consistent with the aims and objectives of the SIP. The Trustee's investment consultant, Aon Solutions UK Limited, reports to the IFC in this regard and provides monthly asset summaries.

The IFC's activities have included, for example, reviewing:

- the Scheme's asset allocation;
- progress against the Scheme's long-term objective;
- the level of liquidity required to support projected cash flows; and
- the Scheme's de-risking framework.

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The Scheme's AVC arrangements do not have a default investment strategy and members are required to choose where their AVCs are invested within the relevant AVC arrangement. However, members have no choice about which AVC provider is used or the range of investment options which their AVC provider offers. During the Scheme year, the Equitable Life With Profits Fund was closed and Equitable Life transferred all policies to Utmost Life and Pensions. The investment strategy applied to funds that were previously invested in the Equitable Life With Profits Fund was set by Equitable Life and it may therefore be considered a 'default' investment strategy.

The IFC aims to review the performance of AVC funds every three years. Its last formal review was in December 2018, when the IFC concluded, based on professional advice, that no major concerns had been identified and resolved that the Scheme's existing AVC arrangements should be maintained. This was on the basis that the range of investment options available to AVC members continues to be suitable for meeting members' long and short-term investment objectives and that the service provided by the AVC providers is broadly in line with market competitors.

The Trustee took advice regarding the transfer of business from Equitable Life to Utmost Life and Pensions and concluded that the level of uplift offered to With Profits investors to compensate for the loss of investment guarantees was reasonable and that the Utmost Life and Pensions arrangement members were moved to, including the range of investment options offered, was fit for purpose.

2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the Scheme administrator, Mercer. The Trustee has a service level agreement in place with Mercer. This covers the following core financial transactions:

- Transferring assets relating to members out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme, and
- Making payments from the Scheme to or on behalf of members.

The Scheme Administrators report on performance against the service level agreement to the Trustee on a quarterly basis. The Trustee considers these reports at each Trustee meeting and this allows the Trustee to monitor that the financial transactions which are important to members are dealt with promptly and accurately. For example, Mercer's service level agreement specifies criteria relating to the time it takes to process these transactions. It also includes qualitative measures, such as the proportion of processes which were completed correctly the first time and the proportion of member feedback which is positive. Mercer has established processes for meeting these service levels, including conducting member feedback surveys, for example, and providing ongoing staff training.

The Trustee does not have service level agreements in place with the providers of the AVC arrangements. However, any core financial transactions relating to the AVC arrangements are included in Mercer's quarterly reports. Therefore, we expect any issues impacting core financial transactions for the AVC arrangements to be raised by Mercer and to be identified in the quarterly reports.

I am pleased to report:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed service level agreement;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

DEFINED CONTRIBUTION GOVERNANCE STATEMENT (CONTINUED)

3. Charges and transaction costs paid by members

The Trustee must set out the charges and costs which are borne by members. These are:

- (1) the explicit charges which are paid by members (such as the annual management charges and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio); and
- (2) implicit transaction costs i.e. the costs of buying and selling investments in each fund.

Where information about member charges and costs is not available, the Trustee has to make this clear, together with an explanation of what steps we are taking to obtain the missing information.

3.1 Explicit charges

DC protected rights underpin funds

These funds are invested with the main Scheme assets. All expenses associated with these assets are paid by the Scheme and members pay no explicit charges from these funds.

In order to value the DC protected rights underpin funds, the Scheme administrators record an allocation of units for each member and these units are given a notional price. This notional unit price is re-valued on a monthly basis by applying a 'growth factor' which is based upon the total return after charges on the main Scheme assets. The growth factor applied over the period covered by this Statement was 14.9%.

AVC arrangements

The costs and charges for all funds that members invested their AVCs in during the Scheme year are set out in the tables on pages 49 to 50.

Standard Life AVC arrangement

There are five Standard Life funds available to AVC members, three unit-linked funds and two With Profits funds. Members invested in all five funds over the year.

The charges on the With Profits funds members invest in are not explicit, they are taken into account when the annual bonus on the fund is declared, but Standard Life does publish an estimate of the charges on these funds and these are shown in the table below.

Phoenix Life (formerly London Life) AVC arrangement

The former London Life With Profits Fund is the only investment option available through the Scheme's Phoenix Life AVC arrangement. The charges on this Fund are not explicit, they are reflected in the annual bonus rate declared on the Fund. Phoenix Life has provided an estimate of the administration expenses and management charges incurred directly or indirectly in the Fund over the year and this is shown in the table below.

Utmost Life and Pensions AVC arrangement

Members invested in the Equitable Life With Profits Fund and the Equitable Life Managed Fund until 1 January 2020. The Equitable Life With Profits Fund closed on this date and all assets (including those invested in the Equitable Life Managed Fund) were transferred to Utmost Life and Pensions. As at 31 March 2020, members were invested in the Utmost Life and Pensions Secure Cash Fund and the Managed Fund.

3.2 Transaction costs

The Financial Conduct Authority rules introduced a legal requirement for all fund managers to disclose transaction costs in a standard format with effect from 3 January 2018.

The transaction costs on the Scheme's main assets in which the DC protected rights underpin funds are invested are shown on page 30.

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The Trustee requested details of the transaction costs on the funds held by AVC members over the 12 months to 31 March 2020 from the providers. There is no missing transaction cost data this year, though the transaction costs obtained for the Utmost Life and Pensions Managed Fund are for the 12-month period to 31 December 2019, as the transaction costs for the 12-month period to 31 March 2020 are not yet available.

Costs and charges on AVC funds:

Fund	Total Expense Ratio (% p.a.)	Transaction costs (%)
Standard Life Managed	0.625	0.1109
Standard Life International Equity	0.626	0.097
Standard Life Money Market	0.609	0.0022
Standard Life With Profits One	0.75 (estimate)	0.1022
Standard Life With Profits One 2006	0.80 (estimate)	0.1022
Equitable Life With Profits	1.5 ¹	1.035 ²
Utmost Life and Pensions Managed	0.75	0.0962 ²
Utmost Life and Pensions Secure Cash	0.5	0.07 ³
Phoenix Life With Profits	1.26 (estimate)	0.26

¹ Equitable Life discloses the charges on the With Profits Fund as 1.0% for administering the Fund and 0.5% p.a. to provide capital to meet the expected cost of guarantees.

² These transaction costs are for the 12-month period to 31 December 2019. The With Profits Fund closed on 1 January 2020 and the transaction costs for the Managed Fund for the 12 month period to 31 March 2020 are not yet available.

³ These transaction costs are for the 12-month period to 31 March 2020, though the Scheme's members were only invested in this Fund from 1 January 2020.

Illustrations to show the cumulative effect of costs and charges

The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on the value of their DC fund at retirement (as a "pounds and pence figure").

The Regulations allow the Trustee to exercise its discretion with regards to the illustrative examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's DC membership.

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out below under 'notes and assumptions'.

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 and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their annual benefit statements.

The Trustee has not provided illustrations covering the DC protected rights underpin funds because members pay no explicit charges on these funds.

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The Trustee has provided illustrations for three example members with AVC funds:

- Example member 1: the youngest member of the Standard Life AVC arrangement (age 40) with a retirement age of 65 and a starting fund value of £2,240;
- Example member 2: the average member of the Standard Life AVC arrangement (age 55) with a retirement age of 65 and a starting fund value of £10,334;
- Example member 3: the youngest member of the Phoenix Life AVC arrangement (age 55) with a retirement age of 65 and a starting fund value of £2,700;

The Trustee has decided not to illustrate the costs and charges of the Utmost Life and Pensions AVC arrangement as the Trustee plans to transfer these funds to the Scheme's Standard Life AVC arrangement.

For the Standard Life AVC arrangement, we have produced illustrations to demonstrate the effect of costs and charges on the Standard Life With Profits One Fund and the Standard Life Managed Fund as these are the two most popular funds amongst members and because these funds have different expected growth rates and are subject to different charges.

For the Phoenix Life AVC arrangement, we have produced illustrations to demonstrate the effect of costs and charges on the Phoenix Life With Profits Fund as all assets are held in this Fund.

The tables below illustrate the effect of costs and charges at different ages on projected retirement pots for the example members.

Example member 1:

For the youngest member of the Standard Life AVC arrangement, the estimated impact of costs and charges on accumulated fund values ('FV') is shown below.

At age:	Standard Life With Profits One Fund			Standard Life Managed Fund		
	Estimated FV (before charges)	Estimated FV (after charges)	Effect of charges	Estimated FV (before charges)	Estimated FV (after charges)	Effect of charges
45	2,570	2,470	100	2,560	2,470	90
50	2,960	2,720	240	2,920	2,720	200
55	3,400	2,990	410	3,330	2,990	340
60	3,910	3,300	610	3,800	3,300	500
65	4,490	3,630	860	4,330	3,630	700

Example member 2:

For the average member of the Standard Life AVC arrangement, the estimated impact of costs and charges on accumulated fund values is shown in the table below.

At age:	Standard Life With Profits One Fund			Standard Life Managed Fund		
	Estimated FV (before charges)	Estimated FV (after charges)	Effect of charges	Estimated FV (before charges)	Estimated FV (after charges)	Effect of charges
60	11,880	11,380	500	11,790	11,380	410
65	13,650	12,540	1,110	13,450	12,540	910

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Example member 3:

For the youngest member of the Phoenix Life AVC arrangement, the estimated impact of the costs and charges on the With Profits Fund on accumulated fund values is shown in the table below.

At age:	Estimated FV (before charges)	Estimated FV (after charges)	Effect of charges
60	2,980	2,770	210
65	3,280	2,830	450

Notes and assumptions

- Fund values shown are estimates and are not guaranteed
- Inflation is assumed to be 2.5% p.a.
- Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- The projected growth rates used have been provided by Standard Life for the Standard Life AVC funds and by our advisers for the Phoenix Life With Profits Fund. They are consistent with the statutory guidance for producing money purchase illustrations.

The total assumed charges and the projected growth rate for the various funds are as follows:

Fund	Total assumed annual charges	Growth rate
Standard Life Managed Fund	0.7407%	2.0% p.a. above inflation
Standard Life With Profits One Fund	0.8923%	2.0% p.a. above inflation
Phoenix Life With Profits Fund	1.525%	0.5% p.a. above inflation

- The transaction costs have been averaged over a 2-year period, where available, in line with statutory guidance to reduce the level of volatility, and a floor of 0% pa has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time.
- Note, the annual returns members receive on the With Profits Funds are determined by the annual bonus rate declared on the Fund rather than the underlying return on the Fund. Fund values between now and retirement will not therefore correspond with those shown above. However, the terminal bonus should mean that at retirement members receive the returns on their Fund less charges and so the retirement fund value should correlate with the projected fund value at retirement shown in the illustration above.

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3.3 Value for members

The Trustee must explain the extent to which the charges and transaction costs detailed above represent good value for members.

Members pay no charges in respect of their DC protected rights funds¹ and so this will not apply to those funds.

As explained, the Trustee formally reviews the Scheme's AVC arrangements every three years. As part of this, the Trustee considers the AVC providers' financial strength and their standards of administration, fund performance and the charges paid by members compared to other options available in the market. The Trustee has considered the results of the last AVC review, which was carried out in December 2018, to assess the value to members, in terms of how the costs borne by members compare against the benefits of membership. The Trustee concluded from this review that the charges members pay within the Standard Life and Equitable Life AVC arrangements are broadly in line with current market rates. Overall, taking account of the suitability of the current AVC providers, the performance of the AVC funds available and how charges compare to current market rates, the Trustee is satisfied that these charges and costs represent good value for members.

Since the last AVC review, the Equitable Life With Profits Fund has closed and all Equitable Life AVC funds have been transferred to Utmost Life and Pensions. The Trustee took advice with respect to the impact of these changes on members and the value provided by the AVC arrangements. As a result, the Trustee is planning to transfer these funds to the Scheme's AVC arrangement with Standard Life.

There are only five members in the Scheme's Phoenix Life AVC arrangement. The Trustee has established that members of the Phoenix Life AVC arrangement are entitled to the higher of the guaranteed annuity option and the annuity that could be secured on the open market with the cash value of their fund at retirement. We therefore believe members who use their fund to purchase an annuity are likely to derive value from the guaranteed annuity option that applies to their fund.

Based on the latest review of the AVC arrangements, the Trustee concluded that the costs and charges on the Scheme's AVC arrangements, as far as these can be established, do represent good value for members and that the fact that we have not been able to establish the charges on the former London Life With-Profits Fund does not mean this arrangement does not provide value for members.

¹ Although the growth factor is impacted by transaction costs

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4. Trustee Knowledge and Understanding

The law requires the Trustee to have, or have access to, sufficient knowledge and understanding to properly exercise its functions as Trustee and to run the Scheme effectively. These requirements are set out in Section 248 of the Pensions Act 2004.

There is a formal induction process in place for new Trustee Directors, though no new Trustee Directors were appointed during the Scheme year.

The Trustee Directors take training and development responsibilities seriously and keep a record of the training completed by each Trustee Director. This training record is reviewed regularly to identify any gaps in knowledge and understanding of the Trustee board as a whole. This allows us to work with our professional advisers to fill any gaps. We also review the effectiveness of the Trustee Board on a regular basis.

During the period covered by this statement the Trustee Directors have:

- Considered any changes required to the Scheme's current, governing Rules and concluded that none were needed (demonstrating a working knowledge of the Trust Deed & Rules and the Trustee's current policies)
- Conducted an annual review of the Trustee's conflicts of interest policy, information sharing protocol, notifiable events reporting procedure, and risk register (demonstrating a working knowledge of documents setting out the Trustee's current policies)
- Progressed the implementation of changes to the investment strategy for the main Scheme assets, resulting from the Scheme's updated Statement of Investment Principles and commenced a further review (demonstrating a working knowledge of the principles relating to the funding and investment of occupational schemes and the Statement of Investment Principles)
- Amongst general updates and training, the Trustee Directors received specific refresher training in preparation for the Scheme's 2019 actuarial valuation with the Trustee's legal and actuarial advisers (to develop our knowledge and understanding of the law relating to pensions and trusts).

As a result of the training activities and reviews which have been completed by the Trustee Directors, individually and collectively as a board, and taking into account the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Trustee board enables it to exercise its functions properly.

Signed on behalf of the RHM Pension Trust Limited



Chair of Trustees

Date 29 September 2020