

MENCAP PENSION PLAN - CHAIR'S ANNUAL STATEMENT

SEPTEMBER 2019

1. Introduction

In March 2015, the Department of Work and Pensions (DWP) set out new rules for the governance of Defined Contribution (DC) pension schemes. From 6 April 2015, the Trustee Directors of each scheme have to produce an annual report, signed by their Chair, setting out a number of prescribed matters.

The Plan was set up on 1 January 1978, and is governed by the replacement Second Definitive Trust Deed that came into force on 30 July 2014, and subsequent Deeds of Amendments.

The DC section of the Plan commenced in April 2002. This scheme is not used as a qualifying scheme for auto enrolment purposes.

This is the fourth Chair's Statement since the new rules and is being appended to the annual report for year ending 31 March 2019.

2. The default investment strategy

The Trustee Directors have made a range of funds available to the members, so that they may reduce their concentration risk by choosing to invest in a well-diversified portfolio. The funds have been white labelled and hence have a plan specific name. The range of funds enables diversification:

- by asset class (equity, bonds, cash)
- by region (UK, overseas)
- by style of investment (ethical)
- within each asset class, by the use of diversified pooled funds

Due to the new pension freedoms that came into force from 6 April 2015, the Trustee Directors reviewed the Plan and replaced the Lifestyle option with four new Lifestyle choices, from 1 June 2015, which are designed to align with the different ways members are able to take their DC account at retirement. As part of this review, the Trustee Directors agreed that the Standard Income Drawdown Lifestyle Fund would be the default fund. This fund is made up of four funds, which include Mencap Cash Fund, Mencap Corporate Bond Fund, Mencap Diversified Growth Fund (DGF) and the Mencap Global Equity Fund.

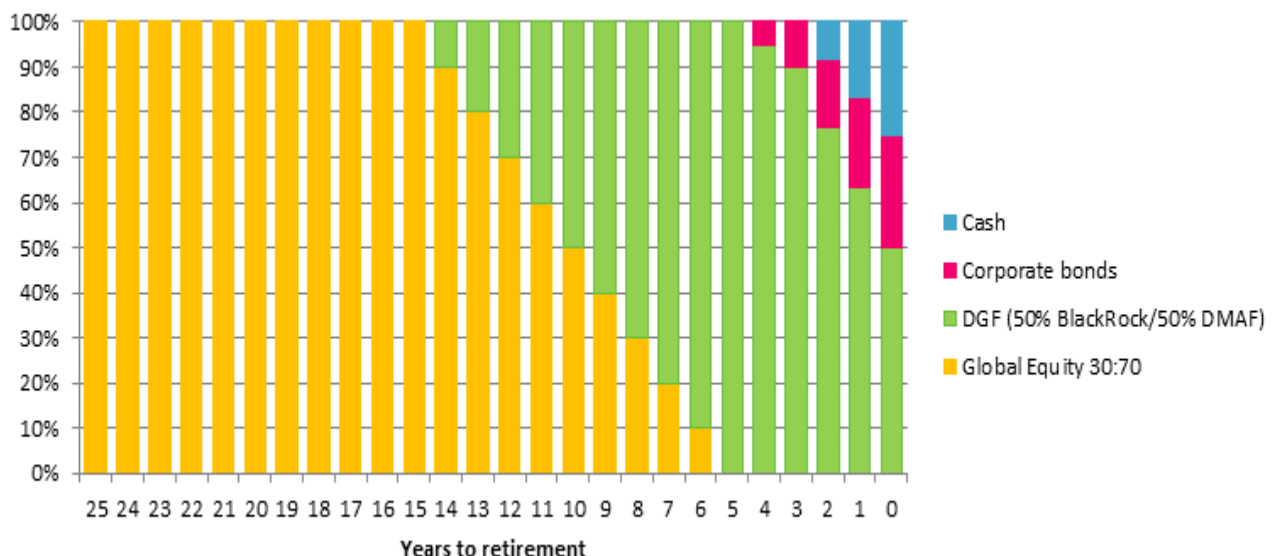
In doing so, the Trustee Directors considered the membership profile of the scheme, the risk profile and number of investment funds offered, the changing long-term investment market conditions, the investment products and techniques available in the market place. In addition, the Trustee Directors considered 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 their investment aims and objectives for it and agreed that the fund is broadly suitable for a majority of the Plan's members.

The Trustee Directors reviewed the DC investment options again in June 2017, to ensure they continue to be fit for purpose and are providing good value. They felt that all but the DGF was performing satisfactorily. As the DGF makes up a significant part of the default strategy as well as the majority of the assets are held within it, the Trustee Directors decided to look at alternatives for this fund. Based on this review, the Trustee Directors agreed to change the makeup of the DGF to consist of two funds - 50% BlackRock DC Diversified Growth Fund (DGF) (so retaining some of the existing fund) and 50% Schroder Dynamic Multi-Asset Fund (DMAF). Over the longer term, the Trustee Directors believe that this combination will provide similar returns to the current DGF, but over shorter periods, returns should be smoother. Whilst the two funds have similar performance targets, their different management styles mean that they should perform differently to each other in different market conditions. This will be important, as members get close to their Target Retirement Age (TRA). This change came into effect from 30 March 2018.

As part of this review, the Trustee Directors also agreed to delay the start of the de-risking period from Global Equities by 5 years so that it starts 15 years prior to members' TRA (rather than 20 years). The Trustee Directors believe that retaining Global Equities in member accounts for longer should help them build a bigger pot before retirement. This change also came into effect from 30 March 2018 across all four lifestyle funds including the default fund.

The strategy is reflected in the Statement of Investment Principles (SIP) dated September 2019 and is attached as Appendix 1.

The make-up of the default fund, **Standard Income Drawdown Lifestyle Fund**, is set out below:



3. Core financial transactions

The Administrators of the DC Section of the Plan are Aegon Workplace Investing. The

Trustees Directors have a specific duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include (but not limited to):

- Investment of contributions
- Transfer of members' assets to and from the Plan
- Switching between investments within the Plan
- Payment out of the Plan to members/beneficiaries.

During the year, the Trustee Directors ensured that financial transactions of the Plan were processed promptly and accurately by:

- Having an agreement with Aegon committing them to a defined service level agreement (SLA) which covers timeliness and accuracy. For example, all activities involving core financial transactions have a SLA of 5 working days.
- Having an agreement in place to ensure contributions are paid by the Employer within 5 working days from pay date and invested by BlackRock within 5 working days from receipt.
- Ensuring the processes adopted by Aegon include daily monitoring of bank accounts, a well-resourced team to process all transactions on time, there is segregation of duties and robust checking of investment and banking transactions.
- Receiving a report at the end of each quarter on Aegon's performance against the SLAs. The report also includes details of all financial transactions.
- These are monitored each quarter at the DC sub-committee meetings, which were held on 23 May 2018, 7 September 2018, 19 November 2018 and 26 February 2019.
- Following up any issues via an actively managed action list. There were no known issues with core financial transactions during the period.
- Having sight of Aegon's annual assurance report on its internal controls
- Ensuring robust processes and quality assurance are in place to ensure that the transfer of assets relating to members into and out of the Plan, transfer of assets relating to members between different investments within the Plan and payments from the Plan to, or in respect of, members are completed accurately and in a timely manner.

4. Charges and transaction costs

The current default fund is Standard Income Drawdown Lifestyle Fund and was introduced from 1 June 2015. As mentioned above this fund is made up of four funds – Mencap Cash Fund, Mencap Corporate Bond Fund, Mencap DGF fund and the Mencap Global Equity Fund. The charges applied across the four funds that are included within the default arrangement since inception are as follows:

From 30 March 2018 onwards:

Annual Management Charge – ranges from 0.35% to 0.63%
 Additional Expenses – ranges from 0.02% to 0.05%
 Total Expense Ratio – ranges from 0.37% to 0.68%

From 1 June 2015 to 29 March 2018:

Annual Management Charge - ranged from 0.40% to 0.65%

Additional Expenses – ranged from 0.02% to 0.08%

Total Expense Ratio – ranged from 0.42% to 0.73%

As a result, the charges for the default investment strategy comply with the charge cap since April 2015.

The charges applicable to all other funds available through the Plan since 1 June 2015 are attached as Appendix 2. All the funds with the exception of the Corporate Bond Fund were in place as at 1 April 2015. The Corporate Bond Fund was added to the portfolio on 1 June 2015.

Transaction costs

The funds' transaction costs are in addition to the fund's TERs and arise when:

- the fund manager buys or sells part of a fund's portfolio of assets; or
- the platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

The FCA requires fund managers and providers to calculate transaction costs using the 'slippage method', which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

The transaction costs for all the funds as at 31 March 2019 are shown at the bottom of Appendix 2.

The charges and transaction costs borne by members in respect of each individual fund throughout the scheme year, shown on Appendix 2, have been prepared having taken account of statutory guidance.

5. Impact of Cost of Charges

The Trustee Directors have asked Aegon, the Plan's administrator to illustrate the impact over time of the costs and charges borne by members.

The illustration and the assumptions are set out in Appendix 3.

These illustrations show projected fund values in today's money before and after costs and charges, based on the average age of a member within the Plan, which is age 48 to the retirement date of age 65.

The illustration shows these figures for the default arrangement, the Standard Income Drawdown Lifestyle investment option as the majority of members are invested in it. It

also shows the Mencap Cash and Mencap Ethical Equity Index funds to show the asset classes with the lowest and highest assumed growth.

As an example, for the same member, the level of charges and costs seen in the last year would reduce their projected pot value at age 65, in today's money, from £71,605.12 - £65,792.07. In the case of the Mencap Cash fund and the Mencap Ethical Equity Index fund, the projected pot value in today's money would reduce from £58,493.07 to £56,301.07 and from 84,928.02 to £79,584.15 respectively.

Please note that these illustrated values have been prepared based on statutory guidance. In addition, these values are not guaranteed and may not prove to be a good indication of how a Plan member's savings might grow.

6. Blackrock Change of business

In 2015, the Trustees were notified that Aegon was acquiring BlackRock's defined contribution (DC) business. The legal transfer to Aegon was completed on 1 July 2018.

7. Value for money

The Trustee Directors' assessment of the extent to which the charges and transaction costs represent good value for members is based on the analysis of the biggest impact on member benefit outcome. Therefore, the greatest focus is on the following areas:

- fund charges
- investment defaults; ranges and added value
- communications and on-line functionality
- at retirement options and processes
- administration
- special projects costs and risks

The Trustee Directors believe that the charges and transaction costs borne by members combined with the other features of the Plan represent good value for members. As part of the 2017 review, the Trustee Directors negotiated reduced fee levels with BlackRock, which included Annual Management Charge on the BlackRock DGF being reduced by 0.1% from 1 January 2018. In addition, the platform fee on all funds (excluding the BlackRock DGF as it has no platform loading) including the Schroder DMAF was reduced by 0.05% from 30 March 2018.

The total member savings from these changes will be c£17,000 p.a. on the assets of £29.2m.

There are robust SLAs in place with the administrator and adherence monitored quarterly, to ensure member transactions and queries are dealt with in time and accurately.

Members receive regular communication from the administrator as well as fliers to think about upcoming retirement from 17 years to Normal Retirement Date. The administrator also hosts an online portal where members have real time information of their account, a pension calculator/modeller and other pension and related information. The Trustee Directors issue a newsletter each year and the last one issued in March 2019, had information about the fund changes, performance, and the importance of actively managing the individual accounts and how to access the online portal.

Based on the above assessment, the Trustee Directors have concluded that the Plan offers good value for members.

8. Trustee Directors' knowledge and understanding

The Trustee Directors acknowledge that conversance is a key requirement of the Pensions Regulator's Code of Practice 7 (Trustee Knowledge and Understanding). They accept in principle that it is each individual's responsibility to achieve conversance and to undertake ongoing continual professional development in order to achieve this.

In order to achieve this, a formal training guideline is in place to cover both defined contributions as well as defined benefit aspects. A process is in place for each Trustee to complete a schedule to confirm the training undertaken which is reviewed in December each year.

The Trustee Directors also receive training from the appropriate advisors on related matters before any decisions are made. For example, during 2018 they undertook training on new requirements for calculating member borne charges and transaction costs, liability driven investments, GMP equalisation and new investment regulations.

The Trustee Directors have a good working knowledge of the Trust Deed and Rules, SIP and the policies relating to the Plan. The Trustee Directors also have sufficient knowledge and understanding of the law relating to pensions and trusts as well as the relevant principles relating to the funding and investment of occupational schemes.

In addition, the Trustee Directors understand it is important to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters, which may not be specific to the Mencap Pension Plan. They do this by reading the updates and bulletins issued by the Advisors as well as the pension's press, which are sent to them regularly.

Annually, an internal review of the skills and experience of the Trustee Board has been undertaken. The purpose of this was to identify the strengths and weaknesses of the Board as a whole and areas for improvement will be built into future training. The same robust process would be used to induct new Trustee Directors.

The combined knowledge and understanding of the Trustee Directors, one of whom is a Professional Trustee, together with the advice available to them, enable them to exercise their trustee duties effectively.

9. What do you need to do next?

This report is for noting. You do not need to take any action.

If you have any questions or require any further information you should contact the Mencap Pensions team on 0207 696 5587 or email pensions@mencap.org.uk

This report can be found on <https://www.mencap.org.uk>. Members will be notified of how to access this document via the site with their benefit statements in May/June 2020.



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Sally Pococke

Chair, Mencap Pension Plan

30 September 2019