

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 JANUARY 2018 – 31 DECEMBER 2018 RADIUS COMPUTER SERVICES EMPLOYEE BENEFIT SCHEME

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 Radius Computer Services Employee Benefit 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 Scheme's default investment strategy is to invest entirely in the Phoenix Life Assurance Limited (PLAL) National Provident Life (NPL) With-Profits Fund. This fund invests in a wide range of assets including equities, property and fixed interest securities. The fund aims to provide good long-term growth potential and offers a flexible approach to retirement without pushing members towards one particular outcome. More information on the default fund and the available self-select funds can be found by visiting Phoenix Life's website.

During the period covered by this statement there have been no significant changes to the Scheme's investment strategy. The Trustee board is in the process of carrying out a review of the Scheme with their advisors, JLT Benefit Solutions. The review will include options for winding-up the Scheme and the best route for securing members outside of the Scheme. The wind-up review will include a market comparison of pension provider offerings measured against the incumbent provider offering from Phoenix Life. The Trustee board expects to communicate the outcome of this review within the next 12-month period and this will provide information on the steps that the Trustee is looking to undertake.

Given the potential impending wind up of the Scheme, the Trustee felt making changes to the investment strategy would not be appropriate at this time.

The Trustee continually monitors the performance of the Scheme's investments throughout the year and are happy with the performance over the period covered by this statement.

The Trustee has set up processes to publish relevant information on the default arrangement online and will notify members about this in their annual benefit statements.

Processing Scheme transactions

The Trustee has a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include 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 are undertaken on the Trustee's behalf by Phoenix Life Ltd, the Scheme's administrator and investment manager. The Trustee periodically reviews the processes and controls implemented by those organisations, and consider them to be suitably designed to achieve these objectives. The Trustee has a service level agreement (SLA) in place with the Scheme administrator which covers the accuracy and timeliness of all core transactions and receive regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include peer checking and authorisation of payments, daily monitoring of bank accounts, a dedicated contribution processing team and four eyes checking of investment and banking transactions. The Trustee was not made aware of any issues relating to the processing of Scheme transactions. We continue to monitor performance against the SLA on a regular basis.

We also perform periodic assessments of methods and efficiency of the Scheme's administrators and challenge them in terms of their efficiency when necessary.

In light of the above, the Trustee considers 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 Trustee 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.

Transaction costs have been provided by the Scheme’s investment manager and they are calculated using slippage methodology. That is, the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed at (as typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

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 (%)
PLAL NPL Unitised With-profit Fund	1.53%	0.033%

Source: Phoenix Life. Figures shown are for the year to 31 January 2019.

As the Scheme was not set up for Auto-Enrolment purposes, the charge cap of 0.75% does not apply to the Scheme.

The Trustee also makes 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 (%)
Phoenix NPI Pens Americas-02	1.04	-0.049%
Phoenix NPI Pens Deposit-02	0.75	0.000%
Phoenix NPI Pens Far East-02	1.07	-0.020%
Phoenix NPI Pens Fixed Interest-02	0.79	0.076%
Phoenix NPI Pens Indexed Gilt-02	0.79	0.103%
Phoenix NPI Pens Managed-02	1.08	0.052%
Phoenix NPI Pens Overseas Equity-02	1.04	-0.010%
Phoenix NPI Pens UK Equity-02	1.03	0.549%

Source: Phoenix Life. Figures shown are for the year to 31 January 2019.

Cumulative effect of charges

We have taken account of statutory guidance when preparing this section of the report.

The compounding effect of charges on a member’s fund can be illustrated as follows:

Illustrations for an “Average” member				
	PLAL NPL Unitised With-profit Fund <i>(the most popular and most expensive fund)</i>	Phoenix NPI Pens Overseas Equity-02 <i>(highest expected return fund)</i>	Phoenix NPI Pens Indexed Gilt-02 <i>(lowest expected return fund)</i>	Phoenix NPI Pens Deposit-02 <i>(the cheapest fund)</i>

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	£7,197	£7,087	£7,265	£7,192	£6,910	£6,849	£6,924	£6,872
2	£7,407	£7,183	£7,548	£7,397	£6,829	£6,709	£6,856	£6,755
3 (retirement)	£7,624	£7,281	£7,843	£7,608	£6,749	£6,571	£6,789	£6,639
Total Fees	£333		£226		£180		£152	

Illustrations for a "Young" member

	PLAL NPL Unitised With-profit Fund <i>(the most popular and most expensive fund)</i>		Phoenix NPI Pens Overseas Equity-02 <i>(highest expected return fund)</i>		Phoenix NPI Pens Indexed Gilt-02 <i>(lowest expected return fund)</i>		Phoenix NPI Pens Deposit-02 <i>(the cheapest fund)</i>	
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	£2,244	£2,210	£2,265	£2,242	£2,154	£2,135	£2,159	£2,143
3	£2,377	£2,270	£2,445	£2,372	£2,104	£2,049	£2,117	£2,070
5	£2,518	£2,332	£2,640	£2,509	£2,055	£1,966	£2,076	£2,000
8	£2,746	£2,429	£2,961	£2,731	£1,984	£1,847	£2,016	£1,899
10	£2,909	£2,495	£3,197	£2,889	£1,938	£1,773	£1,976	£1,834
12 (retirement)	£3,082	£2,564	£3,451	£3,056	£1,893	£1,701	£1,938	£1,772
Total Fees	£442		£321		£205		£176	

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 £6,493 and £1,621 respectively in today's money.

Assumptions	
<p>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.</p> <p>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.</p>	
Age	
<ul style="list-style-type: none"> "Average" member "Young" member 	<p>57 <i>(the average age of the Scheme's membership)</i></p> <p>48 <i>(the average age of the youngest 10% of members)</i></p>

Scheme Retirement Age	60
Starting Pot Size	
<ul style="list-style-type: none"> • "Average" member • "Young" member 	<p>£6,992 <i>(the median pot size of the Scheme's membership)</i></p> <p>£2,180 <i>(the median pot size for the youngest 10% of members)</i></p>
Inflation	2.5% p.a.
Expected future nominal returns on investment:	
<ul style="list-style-type: none"> • Phoenix NPI Pens Deposit-02 • Phoenix NPI Pens Overseas Equity-02 • Phoenix NPI Pens Indexed Gilt-02 • Phoenix NPI Pens Managed-02 	<p>1.0% below inflation</p> <p>4.0% above inflation</p> <p>1.2% below inflation</p> <p>3.0% above inflation</p>

Value for members

The Trustee has 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.

The Trustee acknowledges that, given the small size of the Scheme, it is a struggle for the Scheme to provide good value to members. The Trustee accepts that members deserve better value from the Scheme and this has triggered the Trustee to explore the options available to wind-up the Scheme. The Trustee believes that winding up the Scheme into a pooled arrangement such as master trust or Group Personal Pension will reduce fees for members and provide better scheme governance compared to the current arrangement. The Trustee board are reviewing wind up options and expect to communicate the outcome of this review within the next 12-month period; this will provide information on the steps that the Trustee is looking to undertake.

The Trustee has set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds online and will notify members about this in their annual benefit statements.

Trustee's 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 Trustee directors have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up-to-date with relevant developments.

The Trustee board is in the process of carrying out a review of the Scheme with their advisors, JLT Benefit Solutions. The review will include options for winding-up the Scheme and the best route for securing members outside of the Scheme. The wind-up review will include a market comparison of pension provider offerings measured against the incumbent provider offering from Phoenix Life. The Trustee board expects to communicate the outcome of this review within the next 12-month period and this will provide information on the steps that the Trustee is looking to undertake.

Over the last year, the Trustee directors have not received any training given the impending wind up of the Scheme. The Trustee directors do receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. All the Trustee directors are also required to familiarise themselves with the Scheme's trust deed and rules.

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

The Trustee directors 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 Trustee directors have demonstrated a working knowledge of the Scheme's trust deed and rules and all other documents setting out the Trustee's current policies.

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



David Spicer

Date: 29/10/2019.

