

THE FINNING DC PENSION SCHEME

CHAIR'S STATEMENT YEAR ENDED 31 DECEMBER 2019

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which must be included in the annual report and accounts.

This statement is in respect of the funds held in the Scheme. It covers the period from 1 January 2019 to 31 December 2019 and is signed on behalf of the Trustee by the Chair.

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, including Value for Members, and
- Trustee Knowledge and Understanding ('TKU').

The Default Arrangement

The Statement of Investment Principles ('SIP') for the Scheme dated June 2019 is attached to this Statement.

The Trustee is responsible for the governance of the Scheme's investments, which includes setting and monitoring the investment strategy for the Scheme's default investment strategy. The default investment strategy is the Drawdown Lifestyle Strategy.

The objective of the Drawdown Lifestyle Strategy is to invest in growth assets when members are in the early years of their career and then to switch members' funds towards protection-focused assets as members approach retirement, on the assumption they take their benefits flexibly through a series of income or cash payments.

Alternative lifestyle strategies are available to members so that they are able to select a strategy which fits their expected benefit choices at retirement, if this differs from that targeted by the default investment strategy.

The Scheme's investment strategy is reviewed at least every three years. The most recent strategy review was completed on 23 May 2019. This review considered the suitability of the default investment strategy, the other lifestyle strategies and the self-select fund options for existing members of the Scheme. The range of funds used within the default lifestyle strategy have recently been reviewed. This review focused on the performance of the funds within the default arrangement and it was concluded that the funds had broadly performed in line with their relevant benchmarks and therefore ensured that the aims and objectives of the default lifestyle strategy were being met.

With regards to the passively managed funds offered by the Scheme, both within the default strategy and self-select funds, the most appropriate means of evaluating these funds is comparing performance against the market index they are mandated to match. In all instances the Trustee were comfortable that the passive funds had matched the performance of their market index within a reasonable level of tracking error. The Scheme offers one actively managed Fund, the Blackrock Dynamic Allocation Fund ('DAF'). The DAF's investment performance relative to its peer group, over the last 1, 3 and 5 years provides no immediate concerns and the Trustee is content that the Fund remains appropriate for its purpose within the investment strategy. The Fund's peer group comprises a selection of funds which have a similar performance targets/risk profiles and management costs.

The total costs charged on each fund was compared to similar funds across a broad spectrum of DC platform providers. This analysis showed that the total costs, including transaction costs, were broadly comparable with similar funds used by other Schemes. It should be noted however, there is currently limited transaction costs data available to provide industry wide comparisons. The Scheme's investment advisers consider the costs associated with the funds offered to be competitive, recognising that many funds are passively managed. The outcome of the review was that the investment options, including the default investment strategy, remain suitable for members and should be maintained.

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The Default Arrangement (continued)

The outcome of the review was that the investment options, including the default investment strategy, remain suitable for members and should be maintained.

The Trustee reviews the performance of the default investment strategy and other investment options in conjunction with its advisers on a quarterly basis to ensure the funds and strategies are delivering as expected. Over the period covered by this Statement, the Trustee reviewed the performance of the investment options on 12 February 2019, 8 May 2019, 15 August 2019 and 27 November 2019.

Processing of Core Financial Transactions

The Trustee has a duty to ensure that core financial transactions are processed promptly and accurately. Core financial transactions include:

- Investment of contributions paid to the Scheme;
- Payments from the Scheme to, or in respect of, members;
- Transfer of assets relating to members into and out of the Scheme;
- Transfers of assets relating to members between different investments within the Scheme (fund switches).

The Trustee has a service level agreement in place with Aon which covers the investment of contributions, scheme payments and asset transfers. Aon reports its performance against the service level agreement on a quarterly basis. This report also includes any feedback received from members, whether that be positive or negative. Aon's service level agreement does not cover fund switches however members submit fund switch instructions directly via the Scheme's website and they are processed automatically.

During the period covered by this Statement, the Trustee monitored that the core financial transactions of the Scheme were processed promptly and accurately by:

- Requiring the administrators, Aon, to report quarterly against the service level agreements which cover the timeliness of transactions.
- Ensuring Aon monitors bank accounts daily, provides a dedicated contributions processing team and effects 'peer review' checking on investment and banking transactions.
- Documenting controls covering administration and the processing of transactions in the Scheme's risk register, which is reviewed annually.
- Ensuring that the Scheme's audit also reviews administration processes.
- Ensuring the majority of the Scheme's calculations are automated.

Over the year covered by this statement, Aon achieved the target timescales between 95% and 98% of the time, which is within the performance set by the service level agreement. There were no member complaints or regulatory breaches.

In light of the above, the Trustee considers that the requirements for processing core financial transactions have been met and can report there have been no issues impacting core financial transactions over the period covered by this Statement.

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Member Borne Charges and Transaction Costs

The Trustee is required to report the level of charges and costs borne by members from their DC funds. These charges comprise:

- 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');
- the transaction costs incurred when the fund manager buys and sells assets.

The DC Scheme's default investment strategy has complied with the charge cap of 0.75% p.a. throughout the period covered by this Statement. The TER paid by members invested in the default investment strategy from 1 January 2019 to 31 December 2019 was between 0.13% p.a. and 0.38% p.a. depending upon how many years the member was from retirement.

The TER and transaction costs on the DC funds available to members over the Scheme year are shown in the table below. All costs and charges information has been provided by the investment provider (Aegon BlackRock).

DC funds	TER (% p.a.)	Transaction costs (% p.a.)
Cash Fund ¹	0.13	0.0109
Corporate Bond Fund	0.17	0.023
Dynamic Allocation ¹	0.38	0.138
Fixed-interest Gilt Fund	0.11	0.009
Global Equity Fund ¹	0.22	-0.0096
Index Linked Gilt Fund	0.11	0.059
Pre-Retirement Fund	0.15	0.016
UK Equity Fund	0.11	0.003
World (Ex-UK) Equity Fund	0.16	0.0009

¹ funds underlying the default drawdown strategy

Transaction costs vary depending upon the asset class and fund management style. Fund managers of actively managed funds typically trade more frequently than they would with a passive fund, that simply tracks an index, in order to out-perform the benchmark. As a result, we expect transaction costs for actively managed funds to be higher than those for passively managed funds. The level of transaction costs reported above are consistent with this expectation (with the exception of the Global Equity Fund for which transaction costs over the year were negative i.e. they resulted in a gain to the Fund).

The Administration Regulations require the Trustee to make an assessment of charges and transaction costs borne by members on their DC funds and the extent to which those charges and costs represent good Value for Members. There is no legal definition of "good value" and the process of determining this for members is a subjective one. The Trustee appreciates that low cost does not necessarily equate to better value and as such have considered a range of benefits.

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Member Borne Charges and Transaction Costs (continued)

The Trustee has identified the following areas where they believe the Scheme provide good value for members with DC funds. These benefits can be financial or non-financial in nature.

- Member communications and engagement (including support at retirement)
 - The Scheme provides communications that aim to be accurate, clear, informative and timely.
 - The Scheme uses a variety of communication media (e.g. online and paper communications) with the aim of meeting the needs of, and engaging with, as many members as possible.
 - There is a pension planner on the Scheme website, that allows members to model the future benefits they may get from the Scheme.
 - Members can get information from the Pensions Department to support them in their decision-making as they approach retirement.

- Investment choices

The DC Scheme offers a variety of lifestyle strategies and self-select funds covering a range of member risk profiles and asset classes. The investment funds available have been designed, following advice from the Scheme's investment advisers, with the specific needs of members in mind. Performance is monitored quarterly, and the investment strategy is reviewed at least every three years.

- Flexible contributions

The DC Scheme has a flexible employee contribution structure which allows members to change their level of contributions at any time with ease and pay extra contributions in the form of DC Additional Voluntary Contributions and/or special lump sums.

- Good quality administration

The Trustee has appointed Aon to provide administration services to the Scheme and has a service level agreement in place with Aon. The Trustee is satisfied that Aon has sufficient checks in place to monitor and report on the standards of administration achieved and to ensure that when administrative errors do occur, members are not disadvantaged as a result.

- Governance (the time spent by the Trustee in making sure that the Scheme is run in compliance with the law and regulations including taking account of the interests of its members)

The Trustee has an appropriate governance framework and this is actively in use to help deliver better member outcomes. The Trustee regularly reviews and updates its governance processes and procedures.

Overall, the Trustee believes that the costs incurred by DC members are competitive, compared to other options available in the market (determined by the DWP landscape and charges survey and Aon's latest DC survey). This and the benefits of membership (as set out above) have led the Trustee to conclude that the DC Scheme offered good Value for Members over the period covered by this Statement.

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Illustration of the 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 up to 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 membership.

The Trustee has taken account of the statutory guidance when preparing these illustrations and assessing value for members have been met.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided illustrations to show the effect of costs and charges for three example members of the Scheme. These are (1) the youngest active member, (2) an average active member and (3) the youngest deferred member.

A large proportion of members are invested in the default investment strategy. The Trustee has therefore illustrated the effect of costs and charges for members invested in this strategy. To show the effect of costs and charges on a range of investment options, the Trustee has also decided to illustrate the effect of costs and charges on the projected fund values for the example members assuming they invest in the UK Equity Fund, which has a higher expected return with a lower level of costs and charges than the default investment strategy and the Dynamic Allocation Fund which has a lower expected return but with a higher level of costs and charges.

The illustrations for the UK Equity Fund and the Dynamic Allocation Fund assume the example member remains in these funds until retirement and are shown only in the tables below (not the charts).

The illustrations are based on a number of assumptions about the future which are set out in the 'Assumptions for illustrations' below. 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 example members of the Scheme, they are not a substitute for the personalised illustrations which are provided to members in their annual benefit statements.

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.

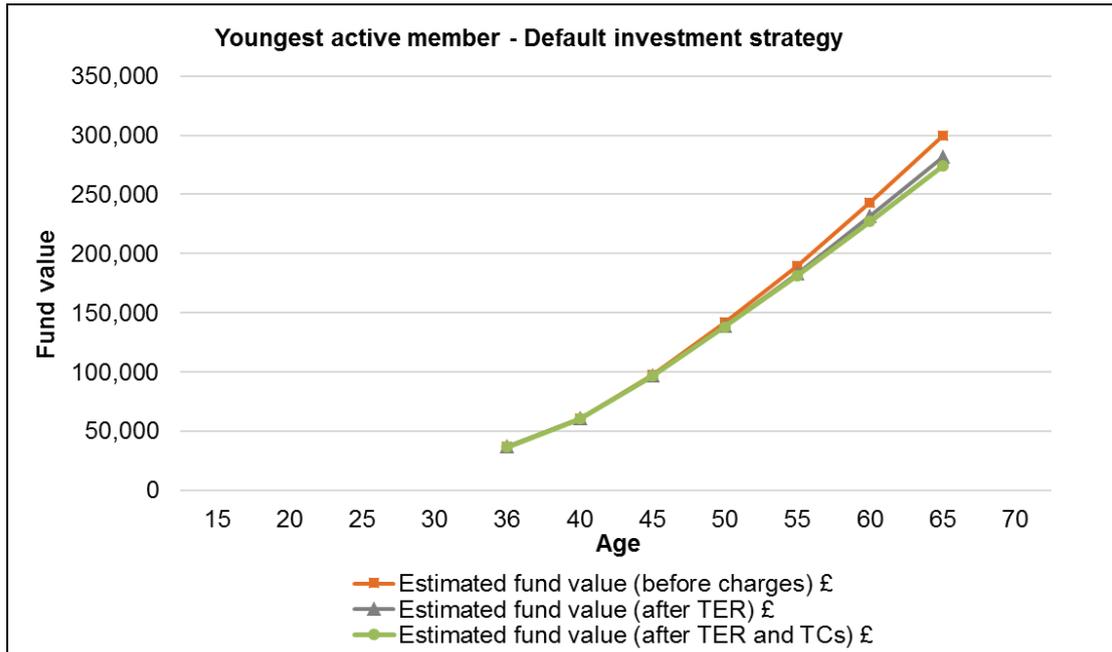
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Illustration of the effect of costs and charges (continued)

Example member 1 (the youngest active DC member) - this member has 29 years left to retirement, a current fund value of £36,600 and total (employee and Employer) contributions of £352 per month.

If this member invests in the default investment strategy, the estimated impact of charges on projected retirement fund values is shown below in the chart below.



The table below shows the estimated impact of charges ('chrgs') on projected retirement fund values ('FV') if this member invests in the default investment strategy, the UK Equity Fund or the Dynamic Allocation Fund.

Age	Default investment strategy			UK Equity Fund			Dynamic Allocation Fund		
	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs
36	£36,600	£36,600	£0	£36,600	£36,600	£0	£36,600	£36,600	£0
40	£61,180	£60,740	£440	£60,830	£60,740	£90	£58,310	£57,870	£440
45	£98,040	£96,600	£1,440	£96,890	£96,600	£290	£88,860	£87,500	£1,360
50	£141,740	£138,160	£3,580	£140,650	£140,030	£620	£123,710	£120,940	£2,770
55	£189,920	£181,620	£8,300	£193,770	£192,620	£1,150	£163,460	£158,650	£4,810
60	£243,120	£227,100	£16,020	£258,220	£256,300	£1,920	£208,790	£201,190	£7,600
65	£299,340	£273,900	£25,440	£336,440	£333,420	£3,020	£260,510	£249,180	£11,330

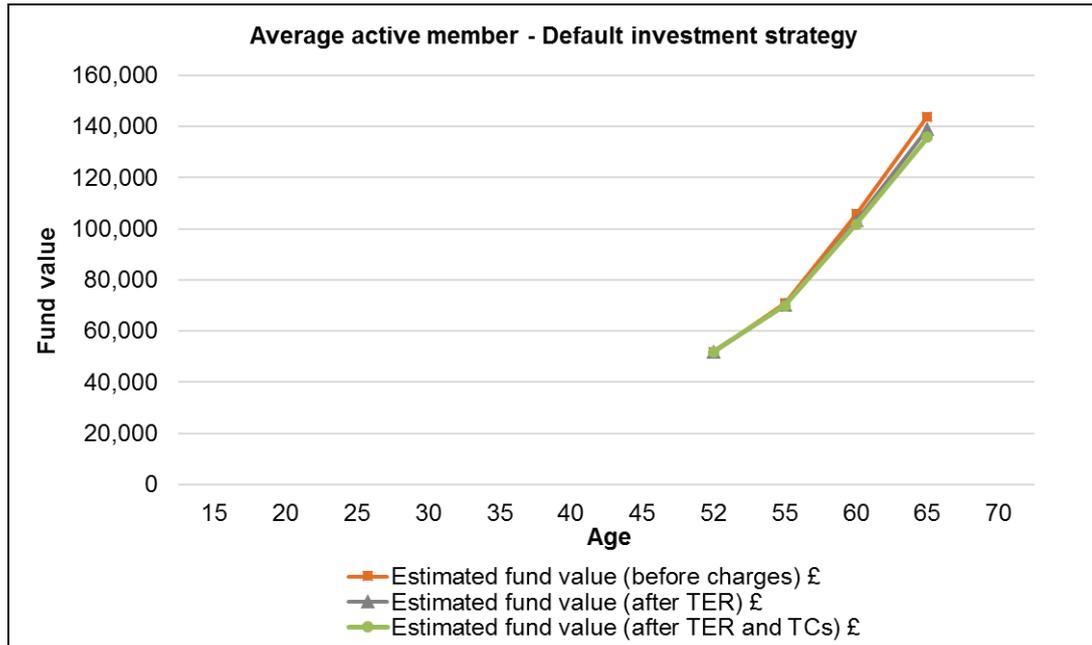
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Illustration of the effect of costs and charges (continued)

Example member 2 (the average active DC member) - this member has 13 years left to retirement, a current fund value of £51,900 and total (employee and Employer) contributions of £367 per month.

If this member invests in the default investment strategy, the estimated impact of charges on projected retirement values is shown in the chart below.



The table below shows the estimated impact of charges ('chrgs') on projected retirement fund values ('FV') if this member invests in the default investment strategy, the UK Equity Fund or the Dynamic Allocation Fund.

Age	Default investment strategy			UK Equity Fund			Dynamic Allocation Fund		
	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs
52	£51,900	£51,900	£0	£51,900	£51,900	£0	£51,900	£51,900	£0
55	£70,810	£69,840	£970	£72,120	£72,030	£90	£69,730	£69,310	£420
60	£105,670	£101,870	£3,800	£111,490	£111,170	£320	£102,760	£101,280	£1,480
65	£143,560	£135,830	£7,730	£159,270	£158,580	£690	£140,430	£137,340	£3,090

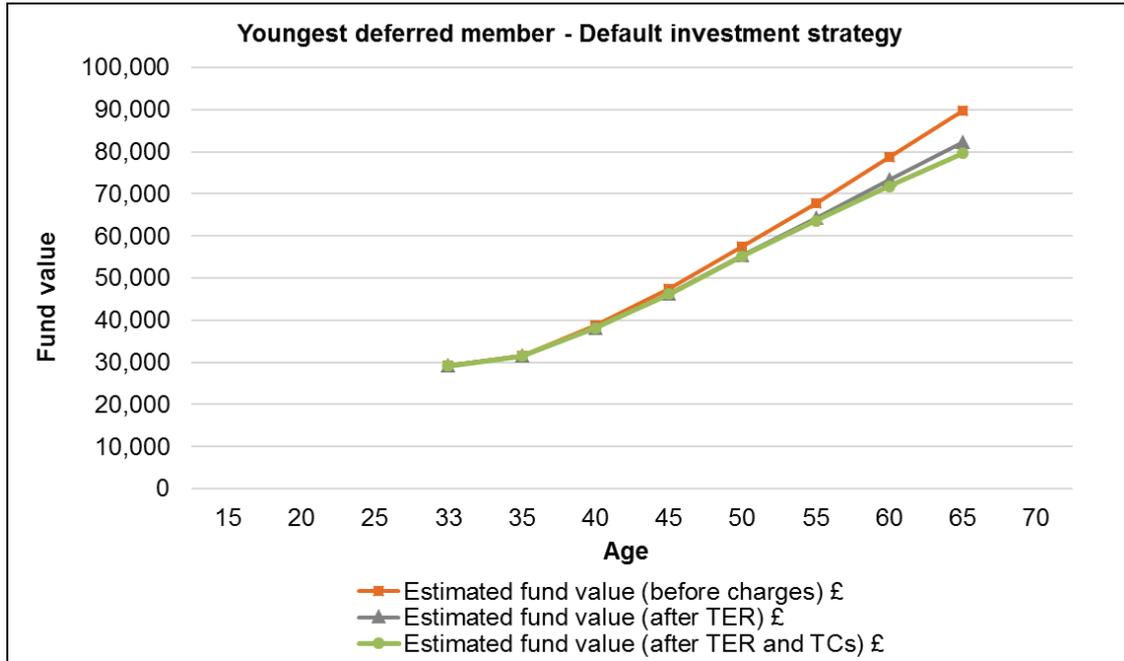
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Illustration of the effect of costs and charges (continued)

Example member 3 (the youngest deferred member) - this member has 32 years left to retirement, and a current fund value of £29,200.

If this member invests in the default investment strategy, the estimated impact of charges on projected retirement values is shown in the chart below.



The table below shows the estimated impact of charges ('chrgs') on projected retirement fund values ('FV') if this member invests in the default investment strategy, the UK Equity Fund or the Dynamic Allocation Fund.

Age	Default investment strategy			UK Equity Fund			Dynamic Allocation Fund		
	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs	FV before chrgs	FV after chrgs	Effect of chrgs
33	£29,200	£29,200	£0	£29,200	£29,200	£0	£29,200	£29,200	£0
35	£31,660	£31,520	£140	£31,550	£31,520	£30	£30,780	£30,640	£140
40	£38,740	£38,170	£570	£38,290	£38,170	£120	£35,110	£34,570	£540
45	£47,410	£46,230	£1,180	£46,460	£46,230	£230	£40,040	£38,990	£1,050
50	£57,420	£55,190	£2,230	£56,390	£55,980	£410	£45,670	£43,980	£1,690
55	£67,740	£63,610	£4,130	£68,430	£67,790	£640	£52,100	£49,620	£2,480
60	£78,670	£71,750	£6,920	£83,040	£82,090	£950	£59,420	£55,970	£3,450
65	£89,660	£79,600	£10,060	£100,770	£99,400	£1,370	£67,780	£63,140	£4,640

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Illustration of the effect of costs and charges (continued)

Assumptions for DC Scheme illustrations:

- All illustrations show projected fund values in current money terms, so do not need to be reduced to take account of the effect of inflation.
- Inflation is assumed to be 2.5% p.a.
- Salary (and therefore contributions for active members) are assumed to increase at 2.5% p.a.
- Normal retirement age is assumed to be age 65.
- Costs and charges are the TER plus the average of the transaction costs incurred on the fund over the past two years. Where transaction costs were reported as negative, these have been taken to be zero for the purposes of these illustrations.
- The assumed growth rates (gross of costs and charges) and costs and charges are as follows:

Fund / strategy	Growth rate	Costs and charges
Default investment strategy	1.3% p.a. below inflation to 1.5% p.a. above inflation ³	0.141 to 0.22% ³
Dynamic Allocation Fund	2.2% p.a. above inflation	0.518%
UK Equity Fund	4.0% p.a. above inflation	0.113%

³ depending upon how many years from retirement the member is.

Trustees' Knowledge and Understanding ('TKU')

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 Code of Practice 7.

The Trustee board has a range of skills and experiences including a mixture of Member-Nominated Directors, Company Appointed Directors and a professional Trustee with varying backgrounds.

The Trustee Directors are familiar with all key documents for the Scheme, including the Trust Deed and Rules, SIP, Trustee Report and Accounts and Scheme management tools. Documents are held electronically, and access is granted as soon as an individual becomes a Trustee Director. This helps to ensure that all Trustee Directors gain a working knowledge of the Scheme.

All Trustee Directors receive comprehensive introductory training when taking up office and are encouraged to complete the Pensions Regulator's Trustee toolkit. New Trustee Directors are provided with training that is appropriate, considering their prior pensions and trustee knowledge and experience. They are expected to become conversant with the Schemes' main documents and complete the Pension Regulator's online Trustee toolkit within six months of being appointed. They are given access to, and receive training on, the use of Aon Pensions Organiser ('APO'), where Scheme documentation is stored. In addition to this, new Trustee Directors are encouraged to attend a Trustee meeting as an observer prior to appointment. Gemma Bridger was appointed as a Member-Nominated Director on 4 September 2019 and confirmed completion of the Trustee toolkit on 30 January 2020. Periodically, a formal self-assessment of the Trustee's knowledge and understanding will be carried out by individual Trustee Directors for analysis by the Trustee Board. The Scheme Secretariat will review the Trustee Directors training needs on an annual basis and will propose any additional training that is considered necessary. The Scheme's professional advisers provide regular training as required and meeting packs also include background information for the Trustees to read.

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Trustees' Knowledge and Understanding ('TKU') (continued)

The Trustee Board believes it has met the requirements during the Scheme year through the following measures:

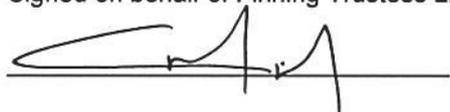
- Assessing training needs and considering whether any gaps exist in individual trustees' knowledge and understanding by way of a discussion at the trustee meeting, which is minuted, and
- Maintaining training logs for each individual trustee which support the above.

In addition to the knowledge and understanding of the Trustee board, the Trustee has engaged with their appointed professional advisers regularly throughout the year to ensure that it runs the Scheme and exercises its functions properly, including the following:

- Reviewing quarterly administration reports from Aon.
- Reviewing quarterly reporting of each individual DC investment fund against its benchmark with advice from Hymans.
- An audit of the Trustee's Report and Accounts has been carried out by Deloitte.
- Holding four regular full-board trustee meetings a year (plus investment and governance sub-committee meetings and additional ad-hoc meetings and conference calls) with providers and advisers who provided reporting and specialist advice before asking the Trustee Directors to take relevant decisions as required. Minutes of each Trustee meeting document the information shared and specialist advice given.
- Maintaining a regime for proper governance (based on the tPRs revised Code of Practice no 13 and attaching guides) and using this as the basis for governance of the DC Schemes.

The Trustee considers that it meets the Pension Regulator's TKU requirements and is confident that the Trustee Directors' combined knowledge and understanding, together with the support of their advisers, enables the Trustee to properly exercise its function as the Trustee of the Scheme.

Signed on behalf of Finning Trustees Limited ('Trustee')



Name: Ciaran McMenamin, Chair of Trustee

Date: 27 JULY 2020