



## **Chair's Governance Statement**

**For the year to 31 December 2018**

### **Money Purchase Section of the Cheviot pension**



## Chair's Governance Statement for year to 31 December 2018

### Money Purchase Section of the Cheviot Pension

#### Purpose

1. This statement explains how the governance requirements for the Money Purchase Section are met. The Money Purchase Section is part of the Cheviot Pension under the Cheviot Trust. The Cheviot Trust also includes defined benefit schemes and a cash balance section which are all managed by the same trustee, Cheviot Trustees Limited (“the Trustee Board”).
2. This Statement is available on the Cheviot website. Members will be signposted to the Statement in benefit statements issued in 2019.
3. The Trust has obtained a type 2 Combined AAF 02/07 assurance report on Master Trusts and 01/06 internal control assurance report across all sections and schemes as at 31 January 2019. These independent reports demonstrate the existence and effectiveness of the controls and procedures in operation at a trustee governance level as well as those which relate to pensions and financial administration across the organisation.

#### The Trustee

4. Cheviot Trustees Limited is a company limited by guarantee. The articles and the trust deed provide for the Trustee Board to consist of a minimum of six directors, with equal numbers of directors representing members (including pensioners) and employers. Currently there are twelve<sup>1</sup> Trustee directors in total: four member representative directors, five employer representative directors and three co-opted directors.
5. All Trustee Directors completed fit and proper tests during 2018 and early 2019 in compliance with the Master Trust Authorisation process.
6. The Trustee Board has four professional trustees, including the Chair.

#### Appointments

7. **Member representatives** are nominated by the membership. In 2018, two new member representatives, Diane Elliott-Smith and Frances Longmore, were selected following an open and transparent process. The vacancies arose as a result of the expiry of the term of two current member representatives. All members and pensioners were invited to put themselves forward for consideration. Five members put themselves forward, including the two existing Trustee Directors.
8. A ballot was held as the number of candidates exceeded the positions available. The Trustee Board set a threshold for the minimum percentage of members who needed to vote for the ballot to be binding. This threshold was not reached and so the successful candidates were selected by interview. Following the member ballot and interview process, Ms Elliott-Smith and Ms Longmore were selected on the basis of detailed selection criteria.

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<sup>1</sup> One member nominated director resigned in March 2019, so there is currently a vacancy

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9. As a result of the very poor member engagement with the election, the Trustee Board decided to remove the requirement for a ballot in future. The membership will have the opportunity to nominate member representatives, but the successful candidate will be selected by interview. The appointment continues to be made by the Trustee Board.
10. Ms Elliott-Smith and Ms Longmore were appointed from 1 January 2019 having completed the Pensions Regulator trustee toolkit and training to meet the Trustee Knowledge and Understanding requirements. They also attended a full Trustee Board meeting as observers in December 2018 and made use of the extensive information available on Cheviot's extranet.
11. **Employer representatives** are nominated by Participating Employers and appointed by the Trustee Board. A condition of appointment is confirmation from the relevant employer that it agrees that the individual's obligation as a Trustee Director is primary to any obligation to the employer.
12. Two employer representatives, Ian Gault and Vineeta Smith, were re-appointed in 2018 following an open and transparent process. All employers were invited to put candidates forward and one new candidate applied. The existing employer representatives also put themselves forward for re-election. After consideration of their skills and competency, the Trustee Board re-appointed the existing candidates.
13. **Co-opted directors** may be appointed to bring specific skills to the Trustee Board. The current Chair is a co-opted director. The Chief Executive is also a co-opted director.
14. The other employer representative candidate, Giles Orton, was appointed as a co-opted director for his specific skills and knowledge as a pensions lawyer and long experience as a professional trustee. He was appointed in September 2018 having completed the Pensions Regulator trustee toolkit and training to meet the Trustee Knowledge and Understanding requirements. He also had access to the extensive information available on Cheviot's extranet.
15. Paul Hughes, who was co-opted to the Finance Committee, has resigned as a director but remains as a consultant to the Finance Committee to support its skills and knowledge.
16. The trust deed governing the Cheviot Trust requires that a majority of the Trustee Directors, including the Chair, are **non-affiliated** as defined by the legislation<sup>2</sup>. The current Chair was designated as non-affiliated on his appointment in 2017. The appointment was made after a tender exercise involving a number of independent trustees and trustee companies was undertaken to identify suitable candidates and a series of interviews of those candidates conducted by Performance Review Committee of the Trustee.

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<sup>2</sup> Non-affiliated means independent of any undertaking which provides advisory, administration or investment or other services in respect of the Money Purchase Section

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17. Appendix I sets out how the requirement for non-affiliated directors is met. Two member representatives, three employer representatives and two co-opted directors are designated as non-affiliated, including the Chair.

#### **Trustee's knowledge and understanding**

18. The Trustee Directors come from a wide range of backgrounds and all bring different skills to the Cheviot Pension. The Trustee Directors have also appointed suitably qualified and experienced advisers to complement their own knowledge and to ensure they have access to the required skills.

#### **Analysis of skills**

19. The Trustee operates six Committees to help it fulfil its functions. Skills analyses are carried out through self-evaluation questionnaires based on the Pensions Regulator's standard at an individual, Committee and Trustee Board level annually. The training plan is drafted to include any areas where skills need to be improved or additional adviser support is sought.
20. The individual and combined skills analysis both demonstrate the breadth and depth of experience on the Trustee Board. Excluding the three directors appointed in 2018, the directors have a total of 100 years of Cheviot trustee experience, ranging from 1-26 years for individual trustees. One of the directors appointed in 2018 is a professional trustee with experience of more than 25 years.

#### **Training**

21. An annual training plan is required by the Governance Policy. It reflects the annual skills analysis and documents how all the key areas will be addressed. The Training Plan is in three sections, showing the core training requirements, any Cheviot specific training and also records any individual training or seminars attended or undertaken. Trustee Directors are encouraged to attend at least one external session per year.
22. Trustee Directors commit to completing the training, either at the relevant meetings or by personal study. Training slides are made available on the extranet.
23. An Education session is held for Trustees at least once a year, usually in January following an analysis of skills in Q4. The session was held in January 2018 and allows training to be undertaken outside the constraints of a Trustee Board meeting. This process is repeated each year. The Education session in January 2019 addressed gaps identified in the skills analysis in Q4 2018.
24. All Trustees Directors have completed the Pensions Regulator's trustee toolkit and regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during 2018 including topics such as 21<sup>st</sup> Century Trusteeship, General Data Protection Regulation, Communication with Members and Reporting Notifiable events. All Board papers include a cross reference to the appropriate provision in the trust deed or other document if relevant.

#### **Conclusion**

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25. Based on the skills analysis undertaken and training provided, the Trustee Board considers that the Trustee Directors' combined knowledge and understanding together with the legal, covenant, investment and actuarial advice which they receive, enables them to properly exercise their functions in relation to the Cheviot Trust as set out in the Governance Policy and relevant legislation and guidance and monitored through the Strategic Plan. The combined knowledge and understanding includes:
- a working knowledge of the core scheme documents (the Trust Deed and Rules, the Statement of Investment Principles, or 'SIP' and the Governance Policy),
  - sufficient knowledge and understanding of the law relating to pensions and trusts and
  - sufficient knowledge and understanding of the relevant principles relating to the funding and investment of occupation pension schemes,

#### **Board effectiveness**

26. The Trustee Board also reviews its own effectiveness as a group regularly and any actions that flow from the conclusions. This was last discussed in June 2018 and some actions noted. These includes one for the secretariat in relation to monitoring conflicts, others for the Chair around facilitating open discussions and an agreement about how the skills analysis of the Trustee Board should be undertaken in future.
27. A review of the investment governance process was undertaken by KPMG (external consultants) in 2017-2018 and this included a review of the effectiveness of the Investment Committee and specifically its ability to challenge the Investment Consultants. KPMG concluded: "We believe the Investment Committee can and does challenge the investment advisor". KPMG also concluded that "the investment decision making structure is robust and allows for efficient management of the different portfolios". The value for members' assessment undertaken by our Investment Consultants (River and Mercantile Solutions) also concluded that the governance and management are of high quality in the context of their knowledge of the market and the operation of other trustee boards.
28. In addition, a newly appointed lawyer attended an Investment Committee meeting in February 2019 and was asked for her views. She commented that "the meeting was run effectively and professionally and Committee members robustly challenged the advisers and each other... The Chair facilitated an atmosphere that was conducive to questions... The papers were easy to follow and presented information in a risk-based and/or status-based format... There was a clear focus on what needed to be achieved at the meeting.

#### **Governance**

29. The Trustee Directors view governance as a core function. There is a clearly articulated governance policy, reviewed annually, setting out the roles and responsibilities of the directors and the different committees, together with clear policies regarding delegations, decision making powers, conflicts of interest, data protection, reporting requirements and appointment of advisers. A strategic plan is reviewed quarterly. Performance of the Trust as a whole, including the Trustee, is measured against this plan. Risks are a standing item on each quarterly meeting of the Trustee

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Directors. All core documents and board papers, including training, are readily available to Trustee Directors on Cheviot's extranet.

#### Committee structure

30. A committee structure is used to provide more focus on key areas. Each Committee has written terms of reference which include delegated powers from the Trustee Board.
31. Four full Trustee Board meetings and eight conference calls were held during the year ended 31 December 2018. The Finance Committee held three meetings, the Funding Committee held two meetings, the Investment Committee held four meetings and two conference calls, the Legal Committee held four meetings, the Strategic Committee held four meetings and the Performance Review Committee held one meeting during the year.
32. Ad hoc working parties are established for key projects. A Master Trust Working Party was established in 2018 to oversee the readiness review and application process for master trust authorisation. The Master Trust Working Party met five times during 2018.

#### Feedback from members

33. The Money Purchase Section provides benefits across more than 70 employers which are non-associated and based in multiple locations across the country. Of the approximately 4,500 membership, 43% of the membership are active members.<sup>3</sup>
34. Meetings for members in the past have only attracted a very small number of attendees given the diversity of employers and location. We have therefore concluded that it is not currently an appropriate mechanism for encouraging engagement with members but will keep it under review. Our approach to encouraging feedback is therefore based on regular communications and the website. Approximately 40% of members receive electronic communications, with the rest receiving information by post. The open rate for the benefit statement email in 2018 was above 60%.
35. The Trust issues a report each year<sup>4</sup> to all members which includes topical and relevant articles and explains how members can pass on feedback about how the Trust is managed. We include contact details throughout the website and provide a specific feedback opportunity on the benefit statement page enabling members to write to a specific email address, [people@cheviottrust.com](mailto:people@cheviottrust.com). Any comments are considered by Cheviot staff and significant feedback reported to the Trustee if appropriate.

#### Core financial transactions

36. The Trustee Directors have agreed written financial authorities<sup>5</sup> and service level requirements<sup>6</sup> with the internal administration team<sup>7</sup> to ensure that core financial transactions are processed

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<sup>3</sup> Figures at 31 December 2018

<sup>4</sup> The latest report was published in July 2018

<sup>5</sup> The financial authorities were updated in March 2019

<sup>6</sup> The service level requirements were reviewed and updated in June 2018

<sup>7</sup> The administrators are directly employed by the Trustee

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promptly and accurately. This includes service standards for responses to member enquiries, transfers to and from the scheme, other benefit payments from the scheme to or in respect of members, investment switches, investment of contributions, lifestyle switches and reconciliation of member unit holdings to the investment manager.

37. The Trustee has put in place processes to ensure that core financial transactions are processed accurately and in a timely manner, including daily monitoring of bank accounts, clear processes for managing contributions and appropriate authorisation of investment and banking transactions (which includes at least two signatories).

#### Monitoring process

38. A quarterly governance report on performance against service level requirements is presented to each full Trustee Board meeting, measuring the timeliness and accuracy of the processing of transactions, contributions received, member statistics, accuracy of benefit payments, contributions received late from employers, reconciliation of member unit holdings and a communications report. The report enables any slippage in service standards to be discussed and plans to improve service standards to be agreed if necessary. The auditors have been asked to review the report.

#### New administration system

39. A new administration system was introduced in early 2019 which will reduce processing times and provide more automated management information reporting.

#### Conclusion

40. As a result of this management information, the Trustee Directors are satisfied that the core financial transactions are processed promptly and accurately and in accordance with the agreed service level requirements but keep this under close review. No material issues were identified during 2018 which required Trustee Board action.

#### Investment issues

41. For members of a defined contribution scheme, the absolute returns delivered by the investment strategy are the most important element in delivering the best possible outcome at retirement. The Trustee Directors recognise that stable returns are also highly valued by members. The absolute returns and the stability of those returns are reflected in the Trustee Board's investment strategy.

#### Investment governance

42. Investment governance is critical to the success of the investment strategy. It is delegated to an Investment Committee which met six times during 2018. Although the investment options are expressed simply to members to make them easy to understand, the underlying strategy is much more sophisticated and includes approximately 20 different underlying funds. The asset allocation is managed actively. It is reviewed at least monthly and more often if warranted by market conditions.

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#### Investment performance

43. The Investment Committee and Trustee Board reviews investment performance quarterly against performance targets set for each option which include both return and stability targets, risk budgets and market conditions. The dynamic asset allocation approach has delivered more stable performance well above target over three and five years for both long term and medium term funds.<sup>8</sup>

#### Investment platform provider

44. All the funds are held on an investment platform to facilitate the Trustee's dynamic asset allocation strategy. The previous investment platform provider was Old Mutual Wealth. Given Old Mutual Wealth's withdrawal from the market, the Trustee appointed Mobius Life in August 2018 and the assets were transferred in late September. Mobius was appointed following advice from the Investment Consultants and legal advice on the relevant Life policy.

#### Range of options

45. Members are offered a range of seven investment options: three long term, two medium term and one short term option. The long and medium term options all target returns above inflation to reflect that members need their funds to grow in real terms. The short term options target market returns in the relevant asset class. Performance is reviewed against these objectives quarterly to ensure returns are consistent with the objectives for each fund. These options allow members to access the most appropriate investment strategy for their individual circumstances and preferences.

#### The Cheviot Lifeplan

46. For those members who do not wish to select their own investment options, Cheviot provides the Cheviot Lifeplan<sup>9</sup>, which aims to provide members with an adequate retirement income in as smooth a manner as possible – taking risk where it is best rewarded and offering protection where it is most needed.

47. It uses five of the seven investment options and transitions members through those options during their membership, reducing risk as they approach their target retirement date. The target retirement date is set by the member or defaults to the member's State Pension Age. It also provides a post retirement option to cater for members who want to access their benefits flexibly. Since April 2015, 52% of members accessing their benefits have taken advantage of the flexible benefits offered within the Trust.

#### Strategy review

48. A review of the investment options and Cheviot Lifeplan's objectives and design is completed annually. This review is conducted by the Investment Committee and is overseen by the Trustee Board.

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<sup>8</sup> Three year performance numbers are not available for the Low Cost Option

<sup>9</sup> The default option for the purposes of the legislation



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49. The most recent review in May 2018 included the following performance and strategy related items.
- (i) the suitability of the long-term return objectives in the context of providing an adequate<sup>10</sup> retirement income for Cheviot's membership
  - (ii) whether the long-term return objectives were likely to be achieved in light of potential future economic conditions
  - (iii) whether the post retirement options remained appropriate
50. It was confirmed that the strategy and past returns and future expected returns (after deduction of any charges) were consistent with the aims and objectives of the investment options (as set out in the SIP) and the Cheviot Lifeplan, other than the Cautious option. The post retirement options were considered appropriate on the basis of an analysis of member behaviour since April 2015.

#### Change in suitability of the Cautious option

51. The results for the Cautious option gave rise to some concern as, although it produced reasonable results against the living wage test, the results were poor against the Pensions Commission Target Replacement Ratio. Further work was requested for consideration at the Investment Committee in September 2018.
52. In September 2018, the Investment Committee concluded, on the basis of advice, that the Cautious option was no longer suitable for long term investment as a result of the reduced return expectations for bond yields in the future. The Investment Committee therefore recommended to the Trustee that the option was reclassified as suitable for Medium term investment. Medium term in this context meant 10 years. This was consistent with the operation of the Cheviot Lifeplan.
53. Communications were issued in November 2018 to members who had selected the Cautious option explaining the change and suggesting that members reconsidered their investment choice if they were more than 10 years from their target retirement date.
54. The reclassification of the option as Medium term did not affect the use of the Cautious option in the Cheviot Lifeplan.

#### Changes to lifestyling for options selected by members

55. Lifestyling, which reduces risk automatically as a member approaches their target retirement date, was available on options selected by the member and the Cheviot Lifeplan. After consideration of the issues, and in light of the new system implementation, the Trustee decided to remove lifestyling on the individual options selected by members with effect from 1 January 2019. Communications have been issued to members<sup>11</sup>.

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<sup>10</sup> Whilst the definition of "adequate" may be unique to each member depending on their retirement goals, the Investment Committee assessed it against the UK Living Wage and the Pensions Commission's Target Replacement Ratio.

<sup>11</sup> Issued in March 2019

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#### Statement of Investment Principles

56. The Statement of Investment Principles was last reviewed in December 2018 by the Investment Committee and is attached to this Statement. It was updated to include:

- (i) Reduction of the Cautious option suitability from Long Term to Medium Term.
- (ii) Removal of lifestyling other than within the Cheviot Lifeplan
- (iii) The change name of the Pension Protection option to Annuity Planning in light of some compliance concern expressed by Mobius Life.
- (iv) A new section describing the investment governance arrangements
- (v) More information about the work being undertaken in relation to environmental, social and governance factors (ESG)

57. There were no other changes to the investment strategy or fund options. A draft of the revised statement was circulated to all employers for consultation before it was signed in January 2019.

#### Value for members

58. All charges are borne by members. A key responsibility of the Trustee is to provide good value for money for members.

59. The Trustee appointed consultants<sup>12</sup> to carry out an assessment of the Money Purchase Section's services based on their knowledge of the market and operation of other trustee boards, and using a framework provided by the Pensions Regulator. This considered: the cost paid by members through a list of each feature and services in four core areas of scheme management as set out in the DC code of practice (governance and management, investment, administration and communication). The quality of the services was assessed through establishing whether the Money Purchase Section's services are suitable, relevant and valued by members and whether each of the services had performed effectively.

60. The below table summarises the evaluation of the value provided in each core area set out by The Pensions Regulator.

Governance and Management	Average or better service for an average charge
Administration and Communication	Average or better service for an average charge
Investment	Average or better service for an average charge

61. The assessment concluded that the Cheviot pension is well positioned through:

- (i) Thorough and effective governance and oversight
- (ii) Effective risk control and return generation from investments and
- (iii) Improved understanding and engagement leading to appropriate decision making by members.

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<sup>12</sup> River and Mercantile Solutions, Investment Consultants

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62. We consider that these factors, alongside a well-run administration function and personal service for members, represent good value to members. Value for members is a standing item on all agendas to ensure that any items which may affect it going forward are recognised and considered in that context.

#### Charges and costs

63. The Cheviot Lifeplan meets the requirements of the charge cap. The charge cap is a limit set by the Government on the amount that can be charged to members of a pension scheme<sup>13</sup>. The actual charges depend on how close the member is to retirement. All funds available to members (either through the Cheviot Lifeplan or through individual choice) are identified in the table below which sets out further details of charges (including investment management, additional expenses, governance, administration, consultant fees and legal fees, but excluding transaction costs). The charges are available to members and employers via the website. Members' benefit statements include a worked example of how to calculate charges for their own funds.

Investment option	Charge (excluding transaction costs)	Used in Cheviot Lifeplan
Growth	0.75% of fund value per year	Yes
Moderate	0.75% of fund value per year	Yes
Cautious	0.75% of fund value per year	Yes
Low Cost	0.5% of fund value per year	No

Investment option	Charge (excluding transaction costs)	Used in Cheviot Lifeplan
Retirement Planning	0.7% of fund value per year	Yes
Cash	0.3% of fund value per year	Yes
Annuity Planning	0.6% per year of fund value	No

64. Each option also bears additional costs reflecting the cost of buying and selling investments. Previously it has not been possible to quantify these transaction costs (also called 'day-to-day trading costs') but the Trustee now has sufficient information to provide reasonable estimates of the impact on each option<sup>14</sup>. These are not included in the table above, but are set out in Appendix 2.

<sup>13</sup> The **cap** applies to scheme and investment administration charges, excluding transaction costs.

<sup>14</sup> Some costs have been pro-rated to reflect the transition between investment platforms in September 2018. Other costs are estimated based on information available for prior periods.

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65. The estimated cumulative impact on members' savings of both charges and other costs is shown in Appendix 3<sup>15</sup>. The Trustee has considered the results and concluded that they are reasonable in the context of the investment strategy objectives.
66. It is important to note that all performance information is shown **after** charges and costs so members can see the actual performance of each option as reflected in their own account value.

**Conclusion**

67. The Trustee Directors are confident that the Trust is managed effectively on behalf of members and employers as described in this Statement and in compliance with relevant statutory provisions and other guidance.

A handwritten signature in blue ink that reads "Derek Morris". The signature is written in a cursive style with a long horizontal flourish at the end.

**Sir Derek Morris**  
**Chair, Cheviot Trustees Limited**

Date: 15 MARCH 2019

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<sup>15</sup> Based on latest available information

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**Appendix I – confirmation of non-affiliated status**

Non-affiliated means independent of any undertaking which provides advisory, administration, investment or other services in respect of the Money Purchase Section.

<b>Name</b>	<b>Position</b>	<b>Affiliation status</b>	<b>Non-affiliated since</b>
Sir Derek Morris	Chair	Appointed 1 April 2017. Sir Derek has no previous association with Cheviot Trust or Cheviot Trustees Limited. Sir Derek has certified that he met the non-affiliated requirements.	April 2017
Mr Neil Braithwaite	Employer representative	Mr Braithwaite has certified that he meets the non-affiliated requirements	June 2015
Ms Diane Elliott-Smith	Member representative (appointed 1 January 2019)	Ms Elliott-Smith has certified that she meets the non-affiliated requirements	January 2019
Ms Frances Longmore	Member representative (appointed 1 January 2019)	Ms Longmore has certified that she meets the non-affiliated requirements	January 2019
Mr Gerald Kidd	Employer representative	Mr Kidd has certified that he meets the non-affiliated requirements.	June 2015
Mr Giles Orton	Co-opted director	Mr Orton has certified that he meets the non-affiliated requirements.	September 2018
Ms Vineeta Smith	Employer representative	Ms Smith has certified that she meets the non-affiliated requirements.	June 2015

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#### Appendix 2 – Impact of Transaction Costs

Day-to-day trading costs are incurred when the manager of an underlying fund buys and sells investments within their pooled fund, and are reflected in the fund's performance. The transaction costs are in addition to the published annual management charge.

The table below set out the transaction costs for each option for 2018<sup>16</sup>. Members will experience varying levels of cost depending on which options they are invested in (either through the Cheviot Lifeplan or through individual choice). These costs will continue in the future at a level expected to be similar to those shown below. A positive value means that the fund benefited from transaction activity of other investors, rather than incurring a transaction cost.

The table below combines transition costs incurred while invested through both Old Mutual Wealth and Mobius Life platforms, which are sourced from Old Mutual Wealth and Mobius Life respectively. In turn, Old Mutual Wealth and Mobius Life have sourced transition costs from the underlying fund managers.

For Old Mutual Wealth, the data provided is for the 12 months to 25 September 2018 (the transition date) and pro-rated for the period from 1 January 2018 to 25 September 2018. For the period from 26 September 2018, when the platform changed to Mobius Life, the data is not yet available. Mobius Life has provided data for the 12 months to 31 December 2017 or 30 September 2018 (depending on the manager). This data has been used to provide estimates for the period 26 September 2018 to 31 December 2018.

Although the transaction cost data is not complete, the Trustee considers it is appropriate to include figures showing the estimated impact based on the latest available information. The Trustee (via its investment adviser) has been liaising with Mobius Life (who in turn is liaising with the underlying fund managers) to secure a full set of data for next year. It expects to be able to include full data in next year's report based on an average of previous years' transaction costs (up to five years), having regard to the Department for Work and Pensions' guidance (and any future guidance).

Investment option	Cheviot Lifeplan	Total transaction impact (over scheme year)
Cheviot Growth	Yes	-0.041%
Cheviot Moderate	Yes	-0.031%
Cheviot Cautious	Yes	-0.016%
Cheviot Retirement Planning	Yes	-0.018%
Cheviot Low Cost	Yes	-0.026%
Cheviot Cash	No	0.022%
Cheviot Annuity Planning	Yes	0.024%

Source: Mobius Life, OMW. These figures represent the latest available information as at the time of publication. OMW data for Cheviot Cash based on an average of available transaction cost data due to data not being available.

<sup>16</sup> Due to a change in platform provider during the year, annual data received from each platform has been pro-rated to reflect the transition date (25 September 2018).

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The Trustees have reviewed the estimated transaction costs for each investment option and underlying fund, and are comfortable the costs are reasonable. As well as satisfactory investment performance relative to each fund or blend's objectives, the higher transaction costs can be justified as follows (as confirmed by the fund managers in question):

*PIMCO US High Yield Bond* has higher transaction costs than other bond funds, due to a higher cost of entry/exit associated with high yield bonds.

*L&G Asia Pacific ex Japan Developed Equity Index GBP Hedged* has higher transaction costs than other equity funds, due primarily to the cost of currency hedging in Asia Pacific regions.

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## Appendix 3 – Cumulative costs

### Cheviot Lifeplan

The level of transaction costs depends on which investment option is selected. The Cheviot Lifeplan automatically switches members between options through their working life to manage investment risk on their behalf. The chart below shows an illustrative example<sup>17</sup> of the effect over time of the application of both the fixed charges and the variable costs on the value of a member's **estimated** account at their Target Retirement Date<sup>18</sup>. It assumes that the account is invested in the Cheviot Lifeplan for the whole period. The after charges figure therefore include the automatic switching process of the Lifeplan, transaction costs (shown in Appendix 2) and the ongoing annual management charge (shown in point 63). Costs can change over time.

Projected pension account, in today's terms <sup>19</sup>		
Yrs	Lifeplan	
	Before charges	After all charges and costs deducted
1	£13,800	£13,700
3	£21,400	£21,000
5	£29,700	£28,900
10	£54,600	£51,900
15	£85,700	£79,700
20	£120,800	£109,900
25	£163,000	£144,900
30	£213,800	£185,800
35	£272,700	£231,500
40	£330,300	£274,000

The figures are based on a number of assumptions based on the Cheviot membership:

- Starting pension account of £10,000
- Inflation of 2.5% each year
- Member salary of £25,000
- Salary and contributions increase each year by 1% over inflation.
- Combined contributions from member and employer of 12% each year
- Costs and charges in the future are the same as the percentage costs and charges in 2018
- Investment return growth in line with the targets set by the Trustee<sup>20</sup>

For example, if you start investing 20 years prior to your Target Retirement Date (e.g. age 45 if your Target Retirement Date is your 65<sup>th</sup> birthday), then the projections show you will have a pot of approximately £120,800 at Target Retirement Date after all charges have been deducted (based on the assumptions above). If there were no costs or charges payable, then the projected pot size is £109,900, meaning the projected impact of costs and charges is £10,900.

<sup>17</sup> Having regard to the guidance issued by Department for Work and Pensions in September 2018

<sup>18</sup> Target Retirement Date is the date when you plan to start to access your pension savings

<sup>19</sup> In today's terms means that the impact of estimated future inflation has been taken into account

<sup>20</sup> Growth +4.5% p.a., Moderate 3.5% p.a., Cautious, 2.5% p.a., Retirement Planning 1.25% p.a., Cash 0% p.a., Annuity Planning 0% p.a., Low Cost 2.5% p.a. (all returns net of inflation).



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#### Individual fund costs

Some members prefer to choose their own investment option to meet their plans for retirement. The costs for each individual option are shown in the chart below and are based on the same assumptions as shown above for the Cheviot Lifeplan but assuming that the member stays invested in the same option through the period.

Projected pension account, in today's terms<sup>21</sup>

Yrs	Growth (used in lifestyle)		Moderate (used in lifestyle)		Cautious (used in lifestyle)		Retirement Planning (used in lifestyle)		Cash (used in lifestyle)		Annuity Planning		Low Cost	
	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted	Before charges	After all charges and costs deducted
1	£13,800	£13,700	£13,700	£13,600	£13,600	£13,400	£13,400	£13,300	£13,200	£13,200	£13,200	£13,200	£13,600	£13,400
3	£21,400	£21,000	£20,900	£20,500	£20,400	£20,000	£19,800	£19,500	£19,300	£19,100	£19,300	£19,000	£20,400	£20,000
5	£29,700	£28,900	£28,700	£27,900	£27,700	£27,000	£26,600	£25,900	£25,400	£25,200	£25,400	£24,900	£27,700	£27,000
10	£54,600	£51,900	£51,300	£48,800	£48,200	£45,900	£44,600	£42,700	£41,400	£40,600	£41,400	£39,900	£48,200	£45,900
15	£86,400	£80,300	£78,900	£73,500	£72,200	£67,400	£64,700	£60,700	£58,100	£56,700	£58,100	£55,300	£72,200	£67,300
20	£126,700	£115,100	£112,500	£102,500	£100,100	£91,600	£86,800	£80,100	£75,600	£73,300	£75,600	£71,000	£100,100	£91,500
25	£177,600	£157,700	£153,100	£136,600	£132,500	£118,800	£111,200	£100,800	£94,100	£90,600	£94,100	£87,200	£132,500	£118,600
30	£241,700	£209,500	£202,100	£176,300	£170,000	£149,400	£138,100	£123,000	£113,400	£108,600	£113,400	£103,800	£170,000	£149,100
35	£322,300	£272,500	£261,200	£222,600	£213,300	£183,600	£167,700	£146,800	£133,700	£127,200	£133,700	£120,900	£213,300	£183,200
40	£423,400	£348,800	£332,200	£276,500	£263,300	£221,800	£200,100	£172,200	£155,000	£146,700	£155,000	£138,500	£263,300	£221,400

<sup>21</sup> In today's terms means that the impact of estimated future inflation has been taken into account