THE R&A GROUP SERVICES LIMITED PENSION SCHEME DEFINED CONTRIBUTION (‘DC’) SECTION

CHAIRMAN’S ANNUAL GOVERNANCE STATEMENT

Introduction

I am pleased to present the Trustees’ Statement of Governance, covering the period 1 January 2018 to 31 December 2018.

This Statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996 No. 1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015 No. 879).

This Statement covers four key areas:

1. The investment strategy relating to the Scheme’s default arrangement;
2. The processing of core financial transactions;
3. Charges and transaction costs within the Scheme; and
4. The Trustees’ compliance with the statutory knowledge and understanding (TKU) requirements.

The Scheme is a hybrid pension arrangement comprised of a Defined Benefit Section and a Defined Contribution Section into which both the Company and members paid monthly contributions until 31 December 2018.

The term ‘defined contribution’ means that the value of members’ benefits on retirement is unknown in advance and is not guaranteed but is dependent on factors such as the amount of contributions paid in, investment returns earned and expenses incurred. The way in which members choose to withdraw their benefits will also have a bearing on their financial outcomes during retirement. The disclosures in this Statement relate entirely to the Defined Contribution Section and include those required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement will soon be made available at www.randa.org/.
1. The Scheme’s default investment strategy

The Trustees’ Statement of Investment Principles in relation to the Scheme’s default investment arrangement is attached. This covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk and diversification. Additionally, it states why we believe the default investment arrangement to be designed in members’ best interests.

The current default lifestyle strategy is designed for members who wish to use most of their savings to purchase an annuity when they retire. It invests 100% of member’s assets in a passive global equity fund (60% in UK and 40% in overseas equities) up to 10 years prior to normal or selected retirement age, at which point the assets are gradually switched into a proportion of a Gilt fund and Cash fund. At normal or selected retirement age, member’s assets will be invested 75% in the Gilt fund and 25% in the Cash fund.

The last review of the default investment arrangement and wider fund range was carried out in 2016. Since that time the Trustees, in conjunction with the sponsoring employer, have been considering the future of Scheme. In 2018 a decision was reached to close the Scheme to new contributions with effect from 31 December 2018 and the intention is for the DC Section assets of the Scheme to be transferred to a Master Trust in 2019. A review of the performance of the default investment arrangement was undertaken bi-annually during the period covered by this report.

The Trustees will keep the investment arrangements under regular review, as appropriate allowing for the changes to the Scheme described above, and will amend them as appropriate based on analysis of the likely requirements of a typical Scheme member.

2. The processing of Scheme core financial transactions

The Trustees recognise that delay and error can cause significant losses for members. They can also cause members to lose faith in the Scheme, which may in turn reduce their propensity to save and impair future outcomes. We therefore operate measures and controls aimed at ensuring that all financial transactions (such as investment of contributions and switches between funds) are processed promptly and accurately.

The Scheme’s administration is outsourced to Mercer Limited. As part of that model, we have agreed timescales with Mercer Limited for the processing of all member-related services, including core financial functions such as benefit quotations, investment switches and investment of contributions. These timescales are well within any applicable statutory timescale.

Other controls that address the promptness and accuracy of core financial transactions include:

- Our administrators record all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task. They must disclose annually to the Trustees their performance against these agreed timescales. The Trustees consider these disclosures at their Autumn meeting.
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- We request additional disclosures on a spot check basis in respect of transactions and benefit
  processing activity that have not been completed within the agreed timescales including the
  cause of the delay, the extent to which agreed timescales were breached and the proposed
  remedial measures.
- The Scheme’s Risk Register outlines the risks to members and the Scheme, including those
  in relation to financial transactions, and considers the impact, likelihood, controls and possible
  mitigation techniques for each risk. The Register is monitored and reviewed on a regular
  basis.
- The Schedule of Contributions sets out timescales for the Company to remit monthly
  contributions to the Scheme.
- The Scheme auditor, Ernst & Young LLP, conducts spot-checks of the accuracy of financial
  transactions as part of its annual audit of the Scheme’s Report & Accounts.

3. Charges and transaction costs

The Trustees are required to report on the charges and transaction costs for the investments
used in default and self-select funds of the DC Section of the Scheme. The Regulator prescribes
the content (including illustrations) in this section, over which the Trustees have little discretion.

Charges

The Company currently meets administration, member communication and advisory costs
associated with operating the Scheme.

The Scheme provides details of the costs borne by members in two forms: the annual
management charge ("AMC") and total expense ratio ("TER"). The AMC is fee applied by the
investment manager for managing the individual funds; the TER comprises AMC and additional
fund expenses ("AFE")s, for example, custody costs where applicable. Charges are higher for
actively managed funds.

The Scheme complies with regulations on charge controls introduced from April 2015.
Specifically, all of the funds in the Scheme’s default investment arrangement have a combined
total expense ratio that is well below the charge cap of 0.75% p.a. of savings.

Transaction costs

In addition to the investment managers’ expenses included in the TER, investment funds are
subject to other implicit costs, such as those associated with trading a fund’s underlying
securities, commissions and stamp duty. These expenses are not explicitly deducted from the
fund but are captured by a reduction in investment returns.

In reporting these transaction costs, the Trustees confirm that the guidance provided by the
Financial Conduct Authority regarding calculations and disclosures of transaction costs was
followed. The Trustees received transaction costs information from Zurich, which is available to
members on request.
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The transaction costs provided by Zurich, and set out in the tables below, are calculated using the 'slippage cost' methodology. This method looks at the change in the value of an investment between the time the decision to buy or sell the investment is taken and the time that the transaction is actually executed. As the value of the investments can increase or decrease, this means that the transaction costs identified by this method can be positive or negative.

The table below summarises charges and transaction costs of the funds used in the default lifestyle option.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>AMC (% p.a.)</th>
<th>TER (% p.a.)</th>
<th>Transaction Costs Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlackRock Aquila 60/40 Global Equity Index</td>
<td>0.125</td>
<td>0.132</td>
<td>-0.006</td>
</tr>
<tr>
<td>BlackRock Aquila Over 15 Years UK Gilt Index</td>
<td>0.125</td>
<td>0.129</td>
<td>-0.014</td>
</tr>
<tr>
<td>BlackRock Sterling Liquidity</td>
<td>0.165</td>
<td>0.165</td>
<td>0.022</td>
</tr>
</tbody>
</table>

Source: Zurich. Fees are as at August 2018 while transaction costs are as at 31 December 2018

The range of charges and transaction costs applicable to the other investment options available during the year are tabled below.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>AMC (% p.a.)</th>
<th>TER (% p.a.)</th>
<th>Transaction Costs Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;A Active Global Equity</td>
<td>0.650</td>
<td>0.704</td>
<td>0.096</td>
</tr>
<tr>
<td>Aberdeen Corporate Bond</td>
<td>0.400</td>
<td>0.530</td>
<td>0.092</td>
</tr>
<tr>
<td>Aberdeen Sterling Government Bond</td>
<td>0.350</td>
<td>0.490</td>
<td>0.082</td>
</tr>
</tbody>
</table>

Source: Zurich. Fees are as at August 2018 while transaction costs are as at 31 December 2018

Reporting Costs and Charges

Based on statutory guidance and in accordance with the regulatory requirements, the Trustees have prepared the following illustrations detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot.

The illustrations below take into account the savings pot size; the real terms investment return gross of costs and charges; adjustments for the effect of costs and charges; and the investment horizon.

To make this representative of the membership, the Trustees have based the illustrations on assumptions that the youngest member of the Scheme is aged 22 years old with an average pot size of £3,500. A typical member is assumed to be 42 years old and have a pot size of £39,000; annual inflation is assumed to be 2.5% per year.
Where transaction costs return a negative value, it is prudent to reflect this as 0% within the illustration as it is unlikely that members will gain every year of their investment term.

Youngest Member (aged 22)

<table>
<thead>
<tr>
<th>Year End</th>
<th>Most Popular</th>
<th>Lowest charge</th>
<th>Highest charge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Default Lifestyle Option</td>
<td>BlackRock Aquila Over 15 Years UK Gilt Index</td>
<td>R&amp;A Active Global Equity</td>
</tr>
<tr>
<td></td>
<td>Before charges</td>
<td>After charges</td>
<td>Before charges</td>
</tr>
<tr>
<td>1</td>
<td>3,605</td>
<td>3,600</td>
<td>3,465</td>
</tr>
<tr>
<td>3</td>
<td>3,825</td>
<td>3,809</td>
<td>3,396</td>
</tr>
<tr>
<td>5</td>
<td>4,057</td>
<td>4,031</td>
<td>3,328</td>
</tr>
<tr>
<td>10</td>
<td>4,704</td>
<td>4,642</td>
<td>3,165</td>
</tr>
<tr>
<td>15</td>
<td>5,453</td>
<td>5,346</td>
<td>3,010</td>
</tr>
<tr>
<td>20</td>
<td>6,321</td>
<td>6,157</td>
<td>2,863</td>
</tr>
<tr>
<td>25</td>
<td>7,328</td>
<td>7,090</td>
<td>2,722</td>
</tr>
<tr>
<td>30</td>
<td>8,495</td>
<td>8,165</td>
<td>2,589</td>
</tr>
<tr>
<td>35</td>
<td>9,734</td>
<td>9,294</td>
<td>2,462</td>
</tr>
<tr>
<td>40</td>
<td>10,230</td>
<td>9,703</td>
<td>2,341</td>
</tr>
<tr>
<td>43</td>
<td>10,047</td>
<td>9,489</td>
<td>2,272</td>
</tr>
</tbody>
</table>

Lowest Expected Growth

<table>
<thead>
<tr>
<th>Year End</th>
<th>BlackRock Sterling Liquidity</th>
<th>Highest Expected Growth</th>
<th>Passive Global Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before charges</td>
<td>After charges</td>
<td>Before charges</td>
</tr>
<tr>
<td>1</td>
<td>3,465</td>
<td>3,459</td>
<td>3,605</td>
</tr>
<tr>
<td>3</td>
<td>3,396</td>
<td>3,377</td>
<td>3,825</td>
</tr>
<tr>
<td>5</td>
<td>3,328</td>
<td>3,298</td>
<td>4,057</td>
</tr>
<tr>
<td>10</td>
<td>3,165</td>
<td>3,107</td>
<td>4,704</td>
</tr>
<tr>
<td>15</td>
<td>3,010</td>
<td>2,928</td>
<td>5,453</td>
</tr>
<tr>
<td>20</td>
<td>2,863</td>
<td>2,758</td>
<td>6,321</td>
</tr>
<tr>
<td>25</td>
<td>2,722</td>
<td>2,599</td>
<td>7,328</td>
</tr>
<tr>
<td>30</td>
<td>2,589</td>
<td>2,449</td>
<td>8,495</td>
</tr>
<tr>
<td>35</td>
<td>2,462</td>
<td>2,308</td>
<td>9,849</td>
</tr>
<tr>
<td>40</td>
<td>2,341</td>
<td>2,174</td>
<td>11,417</td>
</tr>
<tr>
<td>43</td>
<td>2,272</td>
<td>2,098</td>
<td>12,476</td>
</tr>
</tbody>
</table>
## Typical Member (aged 42)

<table>
<thead>
<tr>
<th>Year End</th>
<th>Default Lifestyle Option</th>
<th>BlackRock Aquila Over 15 Years UK Gilt Index</th>
<th>R&amp;A Active Global Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before charges</td>
<td>After charges</td>
<td>Before charges</td>
</tr>
<tr>
<td>1</td>
<td>40,170</td>
<td>40,117</td>
<td>38,610</td>
</tr>
<tr>
<td>3</td>
<td>42,616</td>
<td>42,448</td>
<td>37,842</td>
</tr>
<tr>
<td>5</td>
<td>45,212</td>
<td>44,914</td>
<td>37,089</td>
</tr>
<tr>
<td>10</td>
<td>52,413</td>
<td>51,725</td>
<td>35,271</td>
</tr>
<tr>
<td>15</td>
<td>60,055</td>
<td>58,877</td>
<td>33,542</td>
</tr>
<tr>
<td>20</td>
<td>63,113</td>
<td>61,467</td>
<td>31,898</td>
</tr>
<tr>
<td>23</td>
<td>61,983</td>
<td>60,112</td>
<td>30,951</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year End</th>
<th>BlackRock Sterling Liquidity</th>
<th>Passive Global Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before charges</td>
<td>After charges</td>
</tr>
<tr>
<td>1</td>
<td>38,610</td>
<td>38,539</td>
</tr>
<tr>
<td>3</td>
<td>37,842</td>
<td>37,632</td>
</tr>
<tr>
<td>5</td>
<td>37,089</td>
<td>36,747</td>
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<tr>
<td>10</td>
<td>35,271</td>
<td>34,624</td>
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<tr>
<td>15</td>
<td>33,542</td>
<td>32,623</td>
</tr>
<tr>
<td>20</td>
<td>31,898</td>
<td>30,739</td>
</tr>
<tr>
<td>23</td>
<td>30,951</td>
<td>29,660</td>
</tr>
</tbody>
</table>

### Notes
1. Projected pension pot values are in today's terms i.e. they represent the value of the funds in 2019 and have not been adjusted for the effect of price inflation.
2. Projections are estimates and are not guaranteed
3. The expected gross return above inflation for each fund is as follows:
   A. Default Lifestyle Strategy: 3.0% per year for members 10 years from retirement
   B. BlackRock Aquila Over 15 Years UK Gilt Index (Lowest charge): -1.0% per year
   C. R&A Active Global Equity (Highest charge): 3.0% per year
   D. BlackRock Sterling Liquidity (Lowest expected growth): -1.0% per year
   E. Passive Global Equity (Highest expected growth): 3.0% per year

### Value for Money Assessment

The Trustees are committed to ensuring that members receive good value from the Scheme. Underpinning this assessment is the Trustees’ belief that value is about using the resources at their disposal effectively to help members achieve a good outcome for life after work. In addition, while some measures of value should be scrutinised carefully over the short-term (for example,
the performance of the Scheme administrator), the Trustees believe that others, such as the suitability and performance of investment funds, span several years.

In conjunction with their professional advisors, the Trustees undertook a value for money assessment, which covered the following aspects:

- Investment charges for the default and self-select options benchmarked against comparable funds;
- Transaction costs;
- Net of fees investment performance; and
- Investment fund range and ratings.

The review concluded that the Scheme’s overall benefits represent **good value for money** in comparison to the costs payable by members. The reasons underpinning this conclusion include:

- Benchmarking by our advisors has shown investment charges to be either good value or reasonable when compared against peer funds.

- The funds used in the default lifestyle arrangement have on the whole met their performance objective, or at least performed ahead of their respective benchmark return over the period since inception.

- The funds used in the default lifestyle arrangement are highly rated by our investment advisors as having good prospects of achieving their investment objectives.

- The Scheme’s current default investment arrangement complies comfortably with the charge cap of 0.75% per annum (at 0.125% per annum in the growth phase).

- The members are also in receipt of additional benefits that are paid for by the Company, for example:
  - Ongoing oversight and review of the default investment strategy and the DC fund range;
  - The efficiency of the administration processes and the Trustees’ and Company’s governance of the services;
  - The wide-ranging support and governance of the Scheme from the Trustees, the Company and the Trustees’ professional advisers.

### 4. Trustees’ Knowledge and Understanding (TKU)

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is appropriate for the purposes of enabling the Trustees to exercise the function in question.
This requirement has been met during the course of the Scheme year as follows:

- The Trustees assess their training needs annually in light of their business plan priorities.
- The Trustees have undertaken ongoing training within their meetings to keep abreast of regulatory and other developments.
- The Trustees have regularly reviewed their training needs to ensure that any new needs that arise are identified and that a plan is put in place to address them.

The Trustees also 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. Additionally:

- The Trustee board contains trustees with wide ranging skills and experience.
- The Trustees’ agendas are prepared with support from professional advisors with a view to ensuring compliance and best practice.
- The Trustees’ professional advisors attend all of their formal meetings.
- The Trustees receive a briefing on all legislative and regulatory developments at meetings.

As Trustees of the Scheme we will also on an ongoing basis review and assess whether our systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator’s Code of Practice 13.

**Chair’s declaration**

I confirm that the above Statement has been produced by the Trustees of the R&A Group Services Limited Pension Scheme.

Signature: [Signature]

Name: ANTHONY NEIL ANDEWS

Chair of the R&A Group Services Limited Pension Scheme

Date: 8 MAY 2019.
Appendix 1 Default Statement of Investment Principles (extract from November 2018 Statement of Investment Principles)

DC Section – Default Investment Option

A proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of DC members do not make an active investment decision and are invested in the default option. The Trustees have selected a default investment option in the DC Section that they believe reflects the retirement benefit option that is considered likely to be the most appropriate, for an average individual, and for members who do not decide how they wish to take their retirement benefits.

Objectives of the default option

The Trustees’ objectives in relation to the default option, and the ways in which the Trustees seek to achieve these, are detailed below:

- To generate returns in excess of inflation during the “growth” phase of the strategy.

  The default option’s growth phase structure invests 100% of members’ savings in a passively managed global equity fund which invests 60% in UK equities and 40% in overseas equities. These investments are expected to provide long term growth with some protection against inflation erosion, albeit with equity market volatility.

- To provide a strategy that reduces investment risk relative to annuity and tax free cash benefits for members as they approach retirement.

  As a member’s pot grows, investment risk will have a greater impact on members’ retirement outcomes. Therefore, the Trustees believe that a default option that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches over a 10 year switching period from growth assets to assets designed to target a fixed annuity and tax free cash benefits.

- To offer to members a mix of assets at retirement that is broadly appropriate for an individual to have a balance between purchasing a fixed annuity and taking cash.

  Three months prior to a member’s retirement date, 75% of the member’s assets will be invested in the Indexed Gilt Fund and 25% in the Indexed Cash Fund. Whilst returns from these asset classes are expected to be modest over the long term; they are employed in order to broadly match short term changes in the (explicit and implicit) costs of retirement benefits.

Policies in relation to the default option

- The default option manages investment and other risks throughout a member’s lifetime via a strategic asset allocation consisting of equities, bonds and cash. Risk is not considered
in isolation, but in conjunction with expected investment returns and outcomes for members.

- In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns.

- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member’s portfolio as a whole. The assets are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various underlying fund managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds. Likewise, the underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees’ full policies on social, environmental or ethical considerations are detailed in Section 4 of this SIP. The investment manager has responsibility for buying and selling the underlying assets. All of the pooled funds used within the DC Section and the default option operate daily dealing cycles.

- Assets are invested mainly on regulated markets.

- The investment manager also has discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

Based on the Trustees’ understanding of the DC Section’s membership, an investment strategy that targets the purchase of an annuity and a tax-free cash lump sum (up to 25% of a members’ pot) at retirement is expected to be broadly appropriate to meet a typical member’s requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement - it merely determines the investment strategy that will be in place pre-retirement. Members who intend to take their retirement savings through other formats have the option of choosing their own investment strategy.

The Trustees will continue to monitor the default strategy regularly. The Trustee will conduct a more strategically comprehensive review at least triennially, or after significant changes to the Scheme’s demographic, if sooner.

The Trustees review investment performance and risk on a quarterly basis, and take professional advice as appropriate.

The Trustees believe that this strategy meets the investment objectives outlined in section 2.1 and controls the risks identified in section 2.2.
Appendix 2- Internal controls

**Table 1 - Timescales for benefit processing**

<table>
<thead>
<tr>
<th>Task</th>
<th>Service Level Agreement</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer out quote</td>
<td>20 working days</td>
<td></td>
</tr>
<tr>
<td>Transfer in quote</td>
<td>10 working days</td>
<td>Relies on receipt of all documentation</td>
</tr>
<tr>
<td>Retirement quotation</td>
<td>11 working days</td>
<td></td>
</tr>
<tr>
<td>Death quotation</td>
<td>2 working days</td>
<td></td>
</tr>
<tr>
<td>Investment change</td>
<td>5 working days</td>
<td></td>
</tr>
</tbody>
</table>

**Table 2**

<table>
<thead>
<tr>
<th>Core financial transaction</th>
<th>Key internal control</th>
</tr>
</thead>
</table>
| Investment of monthly contributions following receipt by Trustees | Promptness  
  • Administrator operates a 5 day cycle for investing contributions following receipt of clean data from the Company (as opposed to 19th / 22nd permitted by legislation, if paid electronically).  
  Accuracy  
  • Monthly contribution cycle includes a reconciliation including the administrator sending the Company a monthly reconciliation email to either confirm that the data and monies received match or not and any required action. |
| Investment switches requested by members | Promptness  
  • Administrator’s SLA for member initiated switching investments is 5 working days from date of request.  
  Accuracy  
  • All switches are reconciled by administrator.  
  • All members are notified when a member-initiated investment switch is completed. |
| Payment of benefits to members, including retirements, transfers and death benefits | Promptness  
  • SLAs for core benefit transactions (retirements, deaths and transfers) help ensure that member wishes are known well in advance of benefit payment date.  
  • Annual appraisal of common data helps ensure that member data is accurate, reducing the likelihood of delay from data gaps.  
  Accuracy  
  • Administrator operates peer review system for all benefit calculations.  
  • Data accuracy is subject to regular evaluation and updating. |