

The FirstGroup Pension Scheme

Annual Report for the year ended 5 April 2019

Annual Statement regarding Governance

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Regulations") require trustees of pension schemes that provide "money purchase" benefits to prepare an annual statement that discloses how they have governed certain aspects of the pension scheme. A scheme with money purchase benefits is one where, broadly, a member has their own savings pot into which both employer and member contributions are paid. The retirement benefits from these savings eventually paid to members are not known in advance but depend instead on factors such as the amounts of contributions that are paid, the investment returns that they earn and the charges that are deducted from savings.

This statement covers the period from 6 April 2018 to 5 April 2019 (the Scheme year) and is signed on behalf of the Trustee by the Chair. It sets out how the Trustee has complied with pensions legislation relating to the governance of the money purchase arrangements within the Scheme and provides information in respect of the level of charges and transaction costs to be paid by members. In particular, the statement covers the following key areas:

- **Investment** with particular focus on the Scheme's default investment arrangements (as mentioned below no such arrangement exists in respect of the Scheme).
- **Internal controls**, with particular focus on the processing of core financial transactions.
- **Value**, with particular focus on charges and transaction costs deducted from members' funds.
- **The knowledge and Understanding of the Trustees and the resources available to them**, and how these help the Trustee ensure that the Scheme is governed effectively.

The Trustee is aware of the additional regulatory guidance which sets out the need for details regarding the investment management fees and the transaction charges to be published on a publicly accessible website. This will be hosted on the principal employer's website.

The default investment arrangement

No new contributions are received or invested in respect of the money purchase benefits that exist under the Scheme and the Scheme is not being used as a qualifying scheme for automatic enrolment purposes. As such, there is no arrangement in place which satisfies the applicable definition of "default arrangement" under Regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Scheme is an Executive defined benefit Scheme which has no AVCs. The Scheme has 86 members who, as a result of having less than two years' pensionable service, have benefits consisting of small money purchase pots from "protected rights" payments and other contributions. These money purchase benefits are currently invested in line with the assets of the broader scheme (including defined benefits) and the terms that apply to these assets are reflected in this statement.

The Trustee has implemented a de-risking strategy whereby the level of investment risk reduces as the Scheme's funding level improves. The Trustee has agreed the way in which investment risk should reduce and has delegated the implementation of the de-risking strategy to Mercer through the use of Mercer Dynamic De-Risking Solution ("MDDS"). Mercer construct portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk.

The MDDS relates the asset allocation to the Scheme's funding level on an actuarial basis using a single discount rate. The discount rate is 0.5% p.a. in excess of the appropriate gilt yields. De-risking aims to:

- hold sufficient growth assets to target full funding on a gilts + 0.5% basis when a suitable strong funding level is achieved;
- reduce the volatility in the funding level by reducing unhedged liability exposures; and
- monitor the progress in the funding level and to capture improvements in the funding level promptly if they arise.

The de-risking triggers were reviewed in January 2017.

With assistance from Mercer, the Trustee reviews the performance of these assets on a quarterly basis. On an annual basis, the de-risking strategy is formally reviewed on an approximate basis to ensure that it remains appropriate. The assets are invested across a mix of "growth" assets that are diversified across the main developed equity market regions and other asset categories, and "matching" assets that are diversified between government and corporate issues.

In accordance with the Regulations, the Trustee of the Scheme has appended the latest copy of the Statement of Investment Principles (the "SIP") prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 and Regulation 2/Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

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The Trustee reviews this strategy periodically, with the last review being carried out in January 2017. Ad hoc reviews of strategy and/or investment policy are also undertaken in the event of significant legislative, market or member demographic changes.

Requirements for processing financial transactions

As required by Regulation 24 of the Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. "Core financial transactions" include (but are not limited to) the following:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Transfers of members' assets between different investment options available in the Scheme; and
- Payments from the Scheme to, or in respect of, members.

Mercer carries out the bulk of the core financial transactions that are listed above. Mercer provides quarterly administration reports which assist the Trustee in ensuring that financial transactions are processed promptly and accurately. In addition, the Trustee regularly engages with the Company on administration matters.

The administration reports provided by Mercer break down the number of administration tasks completed during the reporting period and show how many of these were completed within the Service Level Agreement ("SLA").

SLA's were agreed as part of the contract between the Trustee and administrators and these monitor the accuracy and timeliness of core financial transactions. The SLAs for a number of the core financial transactions are as follows:

Service Levels	On Target	Partial	Not met
Retirements	>95%	90 - 95%	<90%
Deaths	100%	95 - 99%	<95%
All member payments made on payment date	100%	95 - 99%	<95%
All HMRC reporting is compliant	100%	95 - 99%	<95%
Work outstanding outside service levels	100%	95 - 99%	<95%
New Complaint	<5	5 to 10	>10
Complaints outstanding	0	1 to 5	>5
New IDR	0	1	>1

In relation to the money purchase assets, there was no activity with regards to the investment of contributions as none are currently made in respect of money purchase benefits.

The Trustee monitors the extent to which the Scheme's core financial transactions are processed promptly and accurately through consideration of these detailed reports that are provided by Mercer [on a quarterly basis].

In light of the above, the Trustee is satisfied that there are sufficient processes in place to ensure that core financial transactions are processed promptly and accurately.

Charges and transaction costs

The Trustee is required to set out the ongoing charges and transaction costs incurred by members in this statement.

"Charges" include the annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. Charges also include investment administration costs which are also borne by members.

In addition to charges, the Trustee is also required to disclose the level of any "transaction costs". Transaction costs are costs that are incurred from the day-to-day management of the assets by the fund manager, such as buying and selling assets.

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The charges and transaction costs for the funds where money purchase assets are invested are provided in the table below:

Provider	Fund	TER (% p.a.)	Transaction Cost (% p.a.)
Mercer	DC members invested in DB Portfolio ¹	0.77 ²	0.160 ³

Provider	Fund	TER (% p.a.)	Transaction Costs (% p.a.)
Standard Life ⁴	Pension Millennium With Profits	5	0.021
	Pension with Profits		0.082
	Standard Life at Retirement (multi Asset Universe)	0.64	0.118
	Standard Life FTSE Tracker Pension	0.61	0.029
	Standard Life Global Equity (50:50) Global Equity Pension	0.61	0.217
	Standard Life Managed Pension	0.62	0.121
	Standard Life Property Pension	0.63	0.094
	SI BlackRock Managed (50:50) Global Equity	0.62	6
SI Jupiter Merlin Growth Portfolio Pension	2.45		

¹ The DB Portfolio has a number of diverse underlying funds, some of which are traded in US Dollars, transaction cost and charges information is based on the Annual Personalised Cost and Charges statements prepared as at the year-end 31 December 2018 and are estimates as the total fees cannot be calculated until at least 6 months after the date.

² The Total Expense Ratio (TER) is made up of one-off costs, ongoing costs, ancillary services costs and incidental costs.

³ The Transaction Costs are the costs incurred when trading in underlying investments.

⁴ The TER provided by Standard Life funds includes a Scheme specific discount of 0.4% p.a.

⁵ Standard Life have confirmed that there is no explicit charge for their With Profits funds as this is worked within the unit pricing.

⁶ At the time of writing the underlying managers were unable to supply the transaction cost and charges information.

Taking into account the investment performance achieved and the rating of the investment managers, the Trustee is of the view that these have provided reasonable value for money across the Scheme as a whole, noting the charges and the services provided (see below for further information on the Trustee's assessment of value for members).

The Trustee notes that there is a requirement under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 for "default arrangements" to comply with certain restrictions on charges, including the charge cap. As there is no "default arrangement" in place for the Scheme, the Trustee is not required to consider (and has not considered) these restrictions and their applicability to the funds where money purchase assets are invested.

Illustrations of the cumulative effect over time of costs and charges on member fund values

From 6 April 2018, the Regulations introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the Trustee. These new requirements are designed to improve transparency on costs and charges as trustees are now required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits.

Using the charges and transaction cost data provided by the relevant parties and in accordance with Regulation 23(1)(ca) of the Regulations, the Trustee has prepared an illustration detailing the impact over time of the costs and charges typically paid by a member of the Scheme, with money purchase benefits, on their retirement savings pot. The statutory guidance has been considered when providing these examples.

The illustrations that follow take into account the following elements:

- Initial savings pot size;
- Ongoing contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

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To illustrate the impact of charges on a typical member's pension pot, we have provided the examples below. The illustrations account for all estimated member costs, including the Total Expense Ratio, transaction costs and inflation.

Projected Pot

Years to Retirement	Most Popular Fund and Least Expected Investment Return DC Members Invested in DB Portfolio (£)		Most Expensive Fund SI Jupiter Merlin Growth Portfolio Pension Fund (£)		Highest Expected Investment Return and Least Expensive Fund Standard Life FTSE Tracker Pension Fund (£)	
	Pot Size with no Costs and Charges Incurred	Pot Size with Costs and Charges Incurred	Pot Size with no Costs and Charges Incurred	Pot Size with Costs and Charges Incurred	Pot Size with no Costs and Charges Incurred	Pot Size with Costs and Charges Incurred
	0	6,000	6,000	6,000	6,000	6,000
1	6,058	6,001	6,180	6,029	6,182	6,142
4	6,234	6,006	6,753	6,116	6,761	6,590
8	6,477	6,011	7,601	6,235	7,618	7,239
12	6,720	6,017	8,555	6,355	8,584	7,951
16	6,993	6,023	9,628	6,478	9,673	8,733
20	7,266	6,029	10,837	6,604	10,899	9,592
24	7,549	6,034	12,197	6,732	12,281	10,526
28	7,844	6,040	13,728	6,862	13,839	11,573
32	8,150	6,046	15,450	6,995	15,594	12,711

Notes

1. Values shown are estimates and are not guaranteed.
2. Projected pension pot values are shown in today's terms.
3. The starting pot size is assumed to be £6,000, and this member joined at age 33 (based on the average pot size and youngest member for those DC members invested in the DB Portfolio).
4. Inflation is assumed to be 2.5% per annum.
5. There are no future contributions being paid.
6. The term of investment is based on the youngest member at age 33 and assume a normal retirement age of 65.
7. The projected gross growth rates for each fund are as follows:

–	DC Members Invested in DC Portfolio:	0.96% p.a. above inflation (notional)
–	SI Jupiter Merlin Growth Portfolio Pension Fund	3.00% p.a. below inflation
–	Standard Life FTSE Tracker Pension	3.03% p.a. above inflation

Value for members assessment

The Trustee carried out a full value for members assessment in March 2019 to assess the extent to which the investment options and the benefits offered by the Scheme represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective.

The Trustee notes that value for members does not necessarily mean the lowest fee and so the overall quality of the service received has also been considered in this assessment. The Trustee believes value for members should be based on the premise that the desired outcomes are being achieved in a cost-effective way and that the desired outcome is reviewed regularly to ensure it remains appropriate.

Overall, the Trustee believes that members of the Scheme are receiving reasonable value. This is based on the value for member assessment of the Scheme, which was carried out by the Trustee's adviser, Mercer and the following considerations:

DC members invested in DB Portfolio

Members are restricted to the one fund which is a DB fund targeting the funding of the Scheme's liabilities and does not take into account member choice or their individual circumstances (such as retirement destination, retirement age and risk appetite).

Whilst the DB Portfolio has performed well over the 3 years and since inception to 31 March 2019 (both are in line with its composite benchmark and other comparable indices), this does not take into account any outperformance targets that a DC active fund would have nor the changing risk return profile for those members approaching retirement.

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Members invested in Standard Life

Broadly, the performance and terms (for unit linked funds) offered to members are not out of line with the AVC market. It is recognised that due to the decreasing pool of AVC providers and lack of appetite from the wider DC industry, especially in light of the small asset size, there is extremely limited opportunity to move to more competitive funds/arrangements.

In addition, assessing the value for money of a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with-profits fund provides guarantees; whether that is a guaranteed pension, investment return or "just" capital security. Therefore, the Trustees consider it inappropriate to reach a general conclusion on value for members for the with-profits funds as this will vary from policy to policy and by member.

Other Services

Through their membership in the Scheme, members get the benefit of (amongst other things):

- Ongoing oversight and review of the Scheme investments;
- The Trustees' and Company's governance of the services; and
- Efficient administration services, the costs of which are met by the Company.

In recognition of the fact that members should be able to exercise choice around their investment options to suit their own financial circumstances, following the year end the Trustee arranged for the DC assets to be transferred to another Trust enabling members to have greater choice and flexibility with regards to their investment arrangements.

Trustee Knowledge and Understanding

As at 5 April 2019, there were three trustees, one of whom is nominated by the members and two who have been appointed by the Company.

The requirement under the Pensions Act 2004 (requirement for knowledge and understanding) for trustees has been met during the Scheme year as a result of the following exercises:

- The Trustee Directors have successfully completing training relevant to their individual needs which is then recorded on the individual Trustee Director's training logs;
- Group training has been provided by advisors at Trustee meetings during the reporting period;
- All Trustee Directors have completed the Pensions Regulator's trustee toolkit;
- The Trustee ensures that advice received can be understood and Trustee is encouraged to question and challenge advisers; and
- The Trustee has particular expertise in specialist areas such as investment finance and administration.

The Trustee undertakes an annual review of all of the individual Trustee Directors' Training logs when determining the training requirements for the following year and in respect of their 'Trustee Knowledge and Understanding'.

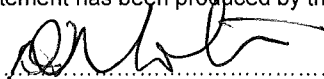
The Trustee Directors consider that they are conversant with Scheme documentation (e.g. Trustee Deed & Rules, Statement of Investment Principles). They were required to demonstrate a working knowledge of these documents throughout the Scheme year and this has been documented in the meeting minutes.

Should any changes be required to the Scheme documentation in the future, the Trustee will liaise with their legal advisers to ensure that their understanding of these documents is maintained.

The combined knowledge and understanding of the Trustee Directors, together with the advice which is available to them, has enabled them to exercise their functions properly. On the basis of the combined knowledge and understanding of the Trustee Directors, as complemented by the specialist legal, actuarial and investment advice that they receive, the Trustee Directors are confident that they meet the statutory TKU requirements and are well placed to properly exercise their functions as Trustee Directors.

I confirm that the above statement has been produced by the Trustee Directors to the best of their knowledge.

Signature:



Name: Nicki Mortimer

Position: Chair of the Trustee

Date:

Appendix: Statement of Investment Principles dated 2 May 2018.