Aga Rangemaster Group Pension Scheme

Annual Statement regarding Governance of the Defined Contribution Assets

This statement has been prepared for the Scheme under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by The Occupational Pension Schemes (Charges and Governance) Regulations 2015. The Trustee is required to prepare an annual statement on governance for inclusion in the Trustee's Annual Report. This statement covers the Scheme year ending on 31 December 2018.

In last year's statement we advised that the Trustee had been informed by the Principal Employer that it wished to consolidate its defined contribution provision for all UK employees in the Group. As a result the Trustee was asked to work with the Principal Employer in arranging for the Defined Contribution Assets in the Scheme to be switched to a suitable alternative pension arrangement in due course. The Trustee acknowledged the Principal Employer's wish to consolidate and agreed to this proposal. During the Scheme year covered by this statement, the Trustee has been working with the Principal Employer on the project to select, and to pass the Defined Contribution Assets to, a suitable alternative arrangement.

Following a review of its options, and having consulted with the Trustee during the process, the Principal Employer selected the Aviva Pension Master Trust as the alternative arrangement. Accordingly, active members of the Scheme who were accumulating pension savings on the defined contribution basis of provision were subsequently enrolled into the Aviva Master Trust from 6 April 2019, following a consultation with the affected employees led by the Principal Employer.

The Trustee received advice from its professional advisers in relation to a bulk transfer of defined contribution assets in accordance with the Department for Work and Pensions's (DWP's) Regulations and Guidance following amendments to Regulation 12 of the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991. Having considered that advice, the Trustee agreed in March 2019 that the Defined Contribution Assets should be bulk transferred to the Aviva Master Trust. The intention had been that this bulk transfer would be complete prior to the requirement to prepare this statement. However, insufficient administration capacity at present to manage rigorously bulk transfers out of the Scheme has meant that the bulk transfer has been agreed to be delayed until October 2019, with the affected members being given formal notification of the bulk transfer arrangements during August 2019.

As a result, on this basis it is expected that this will be the final statement prepared by the Scheme in relation to the Defined Contribution Assets.

The Trustee Board of Directors and trustee knowledge and understanding

The Trustee Directors and the Chairman of the Board of Trustee Directors are named on page 1 of the Trustee's Annual Report. The Chairman is determined annually by election by the Trustee Directors, for a term of office commencing on 1 October each year.

The Trustee Directors, individually and collectively, consider that they have sufficient knowledge and understanding of legal and financial matters together with the relevant management skills to perform their duties. Two of the current Trustee Directors have completed The Pensions Regulator's relevant trustee toolkit modules covering defined contribution provision.

The Trustee Directors are provided with appropriate and timely training in relation to matters that need to be considered in relation to the operation of the Scheme and have the support of suitable professional advisers in the performance of their duties. This includes a monthly update prepared by professional advisers on legislative, regulatory and relevant market developments. A training log is updated after each Trustee meeting.

In December 2018 the Trustee Directors received training from the Scheme's professional advisers on the DWP's Regulations and Guidance on bulk transfers so that they were familiar with their roles and responsibilities prior to agreeing to the bulk transfer of the Defined Contribution Assets.

Scheme administration and the processing of core financial transactions

It is key that the administration of the Scheme, including (but not limited to) core financial transactions such as investment of contributions, investment switches, transfers of funds, and the payment of benefits to or in respect of members, is undertaken promptly and accurately. This also includes the accurate maintenance of member records in relation to the Defined Contribution Assets.

The Trustee has delegated the administration of the Scheme to Mercer Limited whose contact details are provided on page 3 of the Trustee's Annual Report. Mercer is engaged on defined contractual terms, and undertakes all processing activities in relation to the Defined Contribution Assets within a specialist team. The Trustee has agreed procedures and timescales with Mercer for particular services, including the processing of core financial transactions.

There is a system of internal controls in place to monitor the administration of the Scheme. The Trustee Directors undertake a formal annual review of the administration of the Scheme member records with the Administrator. This includes an annual assessment of performance against the agreed service levels. The Group Pensions Manager also meets with Mercer on a bi-monthly basis to review the day to day administration. Over the period covered by this statement, the Trustee Directors concluded that the administration of the Scheme had been undertaken promptly and accurately. Following the relocation of Mercer's primary administration office for the Scheme from Birmingham to Chichester in the first quarter of 2019, the administration of the Scheme will be closely monitored to ensure that there are no impediments to the successful implementation of the bulk transfer of the Defined Contribution Assets in October 2019.

Scheme investments, including the default arrangement, and their charges and transaction costs, and the Scheme's investment principles

The investments of the Scheme are legally separate from those of the Principal Employer. One of the major responsibilities of the Trustee Directors is the supervision of the Scheme's Defined Contribution Assets.

The objective of the Trustee Directors has been to provide an appropriate range of pooled funds for the investment of contributions paid by and in respect of members. Within the constraints of the range of pooled funds available to members, each member has been able to determine his or her investment strategy, taking account of his or her target retirement age, and to vary the chosen strategy from time to time.

The Trustee Directors recognised that members may not believe themselves qualified to take investment decisions. Accordingly the Trustee Directors have made available a default investment approach for members within which the choice of pooled funds can be made for the member by the Trustee on a pre-determined basis.

The default strategy sits within the framework of the Flexible Investment Programme. This was established in 2010 and has been designed to give members some choices over their investment strategy in a controlled way. The structure is set out in Appendix A which is taken from the Scheme's statement of investment principles (SIP) dated 14 December 2016. As also set out in the SIP, a default lifestyle option has been agreed for members who have been unable or do not wish to make an investment choice; the SIP describes the default arrangement as follows:

- target retirement age will be 65 (the normal retirement age for the Scheme);
- during the growth phase, members' personal accounts will be invested in the Mixed Growth fund;
- members will be offered the opportunity to start the switching period at 10 years from retirement. If they do not accept this opportunity then switching will automatically start 5 years from their target retirement age;
- when switching begins, members' personal accounts will start to invest in the Pre-Retirement fund. At target retirement age 75% of members' personal accounts will be invested in the Pre-Retirement fund and 25% in the Cash fund.

The default approach has the dual objectives of maximising as far as reasonably possible the long-term return on each member's pension savings whilst avoiding as far as possible the risk of unacceptable volatility in the capital value and / or annuity purchasing power of each member's pension savings as the member approaches retirement. The Trustee considered that this reflects the needs of members throughout their career as it seeks to manage risks relevant to their age.

The performance of the default investment strategy is reviewed each year in conjunction with the Trustee's professional investment consultants. In 2018, the Trustee reviewed the performance of the Mixed Growth fund and the Pre-Retirement fund. The Mixed Growth fund has been performing satisfactorily compared to funds invested solely in stocks and shares but has not been as volatile as stock markets themselves. The Trustee considers this to be a reasonable outcome for default investors. The Trustee reviewed the performance of the Pre-Retirement fund by reference to changes in annuity prices in accordance with the objective set by the Trustee. The Trustee concluded that over a range of time periods, the Pre-Retirement fund has outperformed changes in annuity prices.

A review of the default investment strategy was last undertaken in 2015 and the Trustee Directors concluded that some modifications to the range of pooled funds used in the approach and to the switching process could usefully be introduced. Although an updated strategic review was due to be undertaken in 2018, the Trustee Directors decided against carrying this out in the expectation that the Defined Contribution Assets would be removed from the Scheme during 2019. The Trustee Directors concluded that they should not make any short term changes prior to switching the Scheme's Defined Contribution Assets to an alternative provider. This is because there were anticipated to be relatively few retiring members in the interim and changes to the pooled fund range or switching process would incur a layer of transaction and administration costs which might be incurred again when the Defined Contribution Assets are subsequently switched to the Aviva Master Trust.

The Trustee Directors continued to receive regular quarterly reporting from the investment managers on the performance of the pooled funds during the Scheme year.

The Trustee reports on the charges and investment transaction costs deducted from the pooled funds over the period reviewed by this statement.

Pooled fund charges:

The charge for investing in each of the pooled funds is set out in the table below, expressed as an annual total expense ratio of the fund. These charges are applied to members' pension savings via the unit price for the fund, and are not directly charged to the members:

Scheme fund name	Underlying pooled fund	Total expenses (% a year)
Mixed Growth	Schroder Life Diversified Growth	(maximum) 0.72
Stock Market Growth	Legal & General Global Equity Market Weights (30:70) Index (75% GBP Currency Hedged)	0.20
Pre-Retirement	Legal & General Pre-Retirement	0.15
Over 5 year Index-Linked Gilts Index	Legal & General Over 5 Year Index-Linked Gilts Index	0.10
Cash	Legal & General Cash	0.125

Investment transaction costs:

In some cases, members may in addition be charged transaction costs on their pension savings. For example, when they switch investments. These costs are taken into account via the unit price for each of the pooled funds and are not directly charged to the members. Transaction costs are those incurred by the pooled fund managers as result of buying, selling, lending or borrowing investments. These costs are typically categorised as:

- Explicit costs which are directly observable and include broker commissions and taxes; or
- Implicit costs which cannot be observed in the same way but can also result in a reduction in the value of capital invested, these implicit costs include market impact or delay costs which can also result in a gain for the pooled fund (i.e. a negative transaction cost).

The FCA's Policy Statement 'Transaction cost disclosure in workplace pensions' establishes a defined methodology to calculate transaction costs (known as the 'slippage cost' methodology). The level of transaction costs incurred for each of the Scheme's pooled funds in 2018 is set out in the table in Appendix B.

The Trustee ensures that when undertaking changes to the Scheme's investment strategy, transaction costs are minimised as far as possible. For example, the Principal Employer has agreed to meet the transaction costs of the planned bulk transfer to the Aviva Master Trust up to a maximum cost of 0.30% of the assets transferred.

The participating employers have to date met the Scheme's administration charges.

'£ and pence' illustrations:

'£ and pence' illustrations, prepared for the purpose of indicating the potential cumulative effect of pooled fund charges and investment transaction costs on members' pension savings, are provided in Appendix C. The illustrations use as an example a deferred member (i.e. a member who no longer pays contributions to the Scheme) who is currently aged 26 and who now has pension savings of £10,000. The illustrations project pension savings, both before and after charges and costs, over a range of different periods, for the Scheme's default investment strategy and also for three of its self-select funds. The illustrations are based on a number of assumptions, which are listed in Appendix C, in particular about future inflation and investment returns. There is no guarantee that any assumptions about future inflation and investment returns will be borne out in practice; therefore, these illustrations should be used chiefly as a guide to how charges and costs can impact pension savings.

Value for members

The Trustee Directors have undertaken a formal assessment of whether the Scheme's defined contribution basis of pension provision provided value for members in the Scheme year. The law requires trustees to calculate the charges (including transaction costs where possible) members pay and to assess the value provided by the services and features for which members pay.

In terms of the cost sharing between members and the participating employers or the Trustee:

- Members pay all of the investment charges and costs levied by the Scheme's pooled fund managers. Those charges and costs are described in the previous section.
- The participating employers or the Trustee have to date met all other charges and costs incurred by the Scheme. These include the administration service provided to members by Mercer, the governance and oversight provided by the Trustee and the communication support provided to members. The Principal Employer has also agreed that the participating employers initially meet the equivalent of the administration costs in the Aviva Master Trust once the bulk transfer has taken place. This approach will be reviewed by the Principal Employer after 3 years.

In terms of the value provided to members through the investment charges and costs:

- Members are able to access a range of highly rated passive pooled funds managed by Legal & General. The Mixed Growth fund (Schroder Life Diversified Growth Fund) is more expensive but is more diversified and continues to be well regarded by the Trustee's professional investment consultants.
- The default investment strategy provides a managed approach to risk although it does not take full account of the options members now have when they get to retirement. For example the options do not explicitly cater for non-annuity based outcomes which have become relevant since the introduction of pension freedoms in April 2015.
- If the Defined Contribution Assets were not being transferred to the Aviva Master Trust in 2019, the Trustee Directors would be intending to adapt the default investment strategy to reflect the pension freedoms. As noted earlier the Trustee Directors needed to weigh up the advantages and disadvantages of making changes prior to the bulk transfer and concluded that, as there are relatively few older members in the switching period, the costs of short term changes potentially outweigh the short term benefits.
- The Trustee Directors have agreed that when the assets are transferred to the Aviva Master Trust, the default investment strategy should be invested in Aviva's 'My Future' strategy; this approach is designed to offer a degree of flexibility to reflect the greater retirement benefit choices now available to pension savers. The Trustee has also agreed with the Principal Employer that the Principal Employer will meet the transaction costs of the bulk transfer to the Aviva Master Trust up to a maximum cost of 0.30% of the assets transferred.

There are a range of services that members receive from the Scheme for which they do not pay. Although not formally assessed by the Trustee it is recognised that members do benefit from these wider services including the administration and communication support. The Trustee remains committed to ensuring that members receive value from the Scheme until the Defined Contribution Assets have been switched to the Aviva Master Trust, and has concluded that overall the existing charges and costs continue to represent fair value for members.

Additional voluntary contributions (AVC) arrangements of defined benefit basis members

There are two legacy AVC arrangements with Clerical Medical and Equitable Life for defined benefit basis members of the Scheme. The Trustee reviews the AVC arrangements annually in conjunction with its professional advisers.

The Trustee has concluded that these AVC arrangements represent fair value for money for members recognising that there is limited money remaining invested in the arrangements and very few ongoing contributors.

Signed by the Chairman on behalf of the Trustee Company, ARG Pensions (1974) Limited on
30 July 2019.

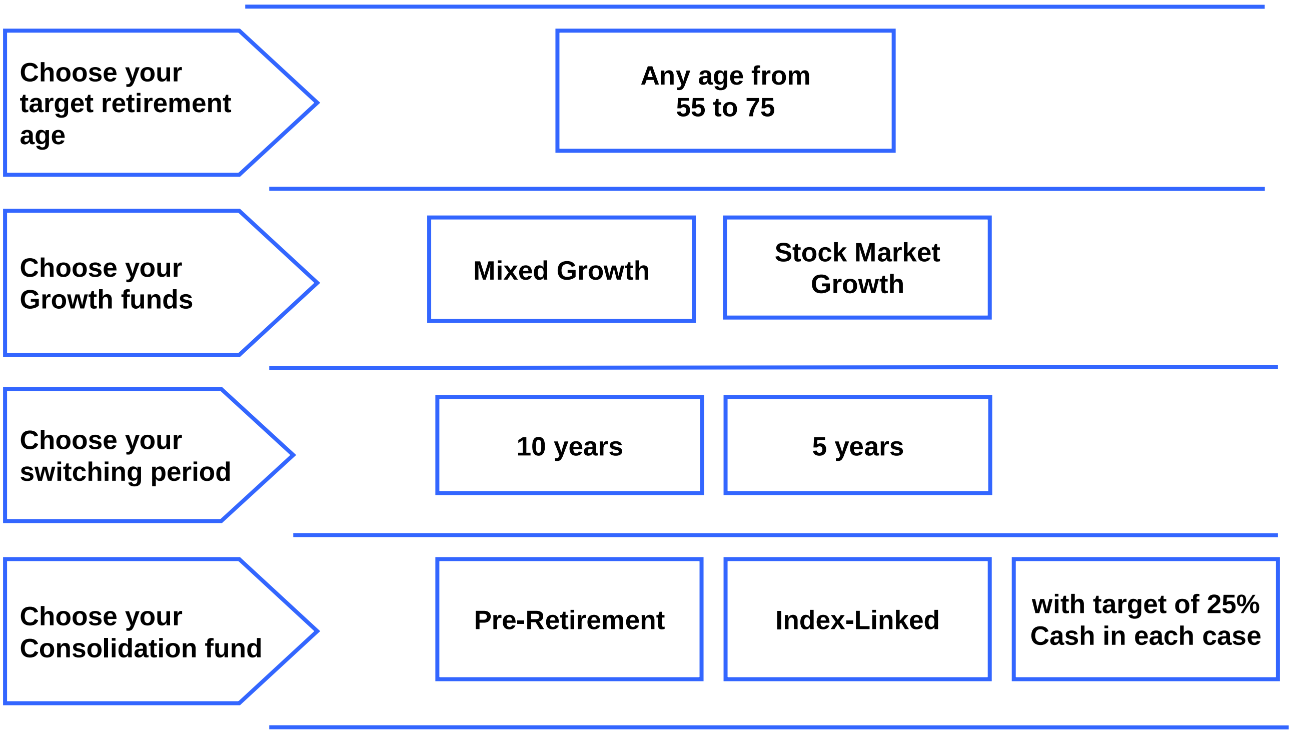
....A J Bagshawe.. Chairman of the Trustee Directors

Appendix A: The Flexible Investment Programme, including the default arrangement

Members are able to use the 5 investment funds to create an investment programme that changes as their needs change during their working life. The programme asks members to make a series of 4 simple decisions set out below. Members can change these decisions at any time and will be reminded of their options at key points during their career.

As set out in the Scheme's statement of investment principles (SIP), the default arrangement where a member is unable or does not wish to make an investment choice modifies this programme as follows:

- default target retirement age is 65
- default Growth fund is the Mixed Growth fund
- default switching period is 5 years
- default Consolidation fund is the Pre-Retirement fund (in combination with the Cash fund)



Appendix B: Investment transaction costs in respect of the year to 31 December 2018

Scheme fund name	Underlying pooled fund	Transaction costs (% a year)
Mixed Growth	Schroder Life Diversified Growth	0.45
Stock Market Growth	Legal & General Global Equity Market Weights (30:70) Index (75% GBP Currency Hedged)	0.05
Pre-Retirement	Legal & General Pre-Retirement	0.02
Over 5 year Index-Linked Gilts Index	Legal & General Over 5 Year Index-Linked Gilts Index	0.05
Cash	Legal & General Cash	0.00

Sources: Schroder Pension Management Limited, Legal & General Investment Management Limited

Appendix C: '£ and pence' illustrations

In the following table the example of a deferred member, aged 26, has been taken to show the potential cumulative effect of pooled fund charges and investment transaction costs on projected personal account values over a range of periods from 1 year to 39 years (i.e. to a normal retirement age of 65) on the value of realistic and representative funds. An initial pot size of £10,000 has been used and no further contributions are assumed to be paid into the pot. The assumptions underlying the illustrations are explained in the notes below the table.

At end of year	Default investment strategy		Stock Market Growth fund		Pre-Retirement fund		Cash fund	
	Before charges	After charges	Before charges	After charges	Before charges	After charges	Before charges	After charges
1	£10,400	£10,200	£10,500	£10,400	£10,100	£10,000	£10,000	£10,000
3	£11,100	£10,700	£11,400	£11,300	£10,200	£10,100	£10,000	£10,000
5	£11,900	£11,200	£12,500	£12,300	£10,300	£10,200	£10,000	£9,900
10	£14,100	£12,600	£15,500	£15,200	£10,500	£10,300	£10,000	£9,900
15	£16,800	£14,200	£19,400	£18,700	£10,800	£10,500	£10,000	£9,800
20	£19,900	£15,900	£24,100	£23,000	£11,000	£10,700	£10,000	£9,700
25	£23,600	£17,900	£30,100	£28,300	£11,300	£10,900	£10,000	£9,700
30	£28,100	£20,100	£37,500	£34,900	£11,600	£11,000	£10,000	£9,600
35	£33,100	£22,500	£46,700	£42,900	£11,900	£11,200	£10,000	£9,600
39	£34,900	£23,300	£55,700	£50,700	£12,100	£11,400	£10,000	£9,500

Notes

1. The projected personal account values shown are for illustrative purposes only and are not guaranteed.
2. The example member is assumed to be currently aged 26, and has a starting personal account value of £10,000, with no further contributions and a normal retirement age of 65.
3. Projected personal account values are shown in today's terms, meaning that they make an allowance for the effect of future inflation.
4. Inflation is assumed to be 2.5% each year.
5. The estimated future growth rate for each self-select fund, after allowance for inflation, is as follow:
    - Stock Market Growth fund – 4.50% each year
    - Pre-Retirement fund – 0.50% each year
    - Cash fund – 0.00% each year
6. The estimated future growth rate for the default investment strategy varies in each year according to which underlying funds the member is invested in at any one time and the proportion of the personal account value in each fund. In the early years the assumed growth rate is 3.50% each year, after allowance for inflation, reflecting the estimated growth rate for the Mixed Growth fund. This reduces in each of the final five years before normal retirement as more of the personal account value is switched from the Mixed Growth fund and into the Pre-Retirement and then Cash funds. For example, the estimated growth rate for the final year before retirement is 0.375%, again after allowance for inflation.
7. Charges and costs are shown as a monetary reduction, made halfway through each year.
8. Charges and costs are deducted before applying investment returns.
9. Switching costs are not considered in the default investment strategy.
10. The sources of data on pooled fund charges and investment transaction costs are Schroder Pension Management Limited and Legal & General Investment Management Limited, in respect of the year to 31 December 2018.