Chair's DC Governance Statement, covering 1 January 2019 to 31 December 2019

1. Introduction

Governance requirements apply to defined contribution (DC) pension arrangements, to help members achieve a good outcome from their pension savings. The Trustee of the Stena (2016) Retirement Benefit Scheme (the "Scheme") is required to produce a yearly statement (which is signed by the Chair of the Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the default arrangement and other funds members can select or have assets in, such as "legacy" funds);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

2. Default arrangements

The Scheme is not used as a Qualifying Scheme for auto-enrolment.

The Trustee has made available a range of investment options for members. Members who join the Scheme and who do not choose an investment option are placed into the Annuity Purchase Lifestyle Plan, (the "Default"). The Trustee recognises that most members do not make active investment decisions and instead invest in the Default. After taking advice, the Trustee decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the Default.

Details of the objectives and the Trustee's policies regarding the Default can be found in a document called the 'Statement of Investment Principles' (SIP). The Scheme's SIP covering the Default is attached to this document.

The aims and objectives of the Default, as stated in the SIP, are as follows:

- To allow members the potential to maximise the value of their assets at retirement over the long term;
- To allow members the option to maintain the purchasing power of their savings, should they decide to purchase an annuity;
- To provide options which provide some protection for members' accumulated assets in the years approaching retirement against:
  - Sudden (downward) volatility in the capital value;
  - Fluctuations in the cost of annuities.
- To allow members to tailor their investment choices to meet their own needs.

The Default strategy is reviewed at least every three years and was last reviewed on 20 November 2019 to check that it continues to be suitable and appropriate given the Scheme's risk profiles and membership.

This review included analysis to check that the risk and return levels of the Default were appropriate given the DC membership demographics.

The outcome of this review was to conclude that a default arrangement targeting annuity purchase at retirement was no longer appropriate for members. Alongside this review, the Trustee also separately decided to transfer the remaining DC members in the Scheme to the Ensign Retirement Plan as soon as practical.

Consequently, it was agreed that the Annuity Purchase Lifestyle Plan would be retained in the Scheme until the transfer to Ensign.

3. Requirements for processing core financial transactions

The processing of core financial transactions is carried out by the administrators of the Scheme, Aegon and Barnett Waddingham. Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme (including switches made within each of the lifestyle strategies), and payments to members/beneficiaries.

The Trustee has received assurance from both administrators that there are adequate internal controls in place to ensure that core financial transactions for the Scheme are processed promptly and accurately, details of which can be found in the remainder of this section of the Statement.

The Scheme has a Service Level Agreement ("SLA") in place with each administrator which covers the accuracy and timeliness of all core financial transactions. In particular, Aegon, which carries out most of the day-to-day administration for the Scheme's DC benefits, works to an overall SLA of 95% for all administration activity, and 98% or higher for financially critical transactions (which include retirements and death claims).

To help the Trustee monitor whether service levels are being met, the Scheme Secretary receives regular data about the administrator's performance and compliance with the SLA. The Operations and Management sub-committee also carries out an annual high-level review of administration services and provides recommendations on any actions to be taken. Using information provided by the administrators, which has been reviewed by the auditors, the Trustee is satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

The key processes adopted by the administrators to help meet the SLAs are as follows:

- Internal controls, as documented in each administrator's internal controls document (eg AAF 0106 report).
- Aegon use a workflow system for logging all tasks for the scheme, called AWD10 (Automated Workflow Distribution). Barnett Waddingham has a similar automated system called Taskstream which it used to prioritise work, monitor workflow and analyse performance against the SLA.
- Same day straight through processing for new investments. Most switches are processed using STP from Aegon's website.
- Member level investments and disinvestments are keyed in manually and then checked by a segregated Quality and Assurance Team within Aegon's administration function, with the aggregated trades processed the next day.
- Contributions received are invested the same day subject to appropriate checks being carried out. Any discrepancies are referred to the Payroll Manager for resolution. There is an SLA in place that says that this process can take up to 5 working days to complete with the administrator once the information has been received in a complete format.
- The Trustee has in place a policy where transactions of over £150,000 are reviewed by a senior administration manager.
- There is a stringent accreditation process within Aegon before staff are allowed to process work. Quality is continually monitored and reviewed.

In addition, there is a robust 'Incident' process, triggered by any failure to process work correctly, either by Aegon or an associated third party. This includes investigation, corrective work, remediation and root cause analysis and preventatives. There have not been any such incidents in relation to the period covered by this Statement.

Over the course of the period covered by this Statement, the Trustee also had AVC arrangements with Equitable Life. On the 1 January 2020, following the end of the Scheme year, the AVC arrangements with Equitable Life were transferred to Utmost Life & Pensions, who will take over responsibility of administrating the AVC arrangements. On 7 July 2020 these members were transferred to the Ensign Retirement Plan.

For the AVC arrangements the Trustee does not have an individual service level agreement ("SLA") in place with the administrator; as Equitable Life did not provide a specific service level agreement. However, Equitable Life has previously confirmed that it has its own internal service level standards which cover the accuracy and timeliness of all core transactions and pledged to complete tasks on receipt of requests as follows:

- 95% of payments within 5 days;
- 95% of benefit illustrations within 10 days; and
- 90% of all general servicing within 10 days.

In addition, Equitable Life has produced a detailed statement, which confirms that it has a system of internal controls for ensuring the effectiveness of its administration services. Although the system is designed to manage rather than eliminate the risk of failure, it provides reasonable assurance against material loss or misstatement.

The key processes adopted by Equitable Life to help it meet its internal SLAs are as follows:

- The administrator has internal standards which ensure that staff are properly trained, qualified, supervised and monitored;

- Staff are encouraged to enhance their skills and knowledge by also attending external training courses where appropriate;
- Administration procedure manuals are regularly reviewed and updated;
- Both automated and manual processes and work are subject to checking and/or regular quality sampling; and
- The administrator conducts a data review exercise on an annual basis. It also updates its data when it receives new information from the Trustee.

The Trustee receives copies of the members' annual benefit statements and reporting on the Scheme information, including details of the members, any transactions and fund values. Reporting from Equitable Life includes annual updates of upcoming retirements during the Scheme year.

All transactions (e.g. retirement quotations, transfer quotations) are sent by Equitable Life to the Trustee to communicate to the member. This allows the Trustee to monitor that transactions are accurately performed within the agreed target turnaround performance standards for different activities specified under Equitable Life's internal service level standards.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio (TER). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges include administration costs, since these costs are met by the members.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by the Aegon who is the scheme's platform provider. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

Default arrangements

The Default is the Annuity Purchase Lifestyle Plan. The Default has been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which fund they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the following table.

Default charges and transaction costs

Years to target retirement age	TER	Transaction costs
Growth phase: Up to 6 years before target retirement age	0.51%	0.10%
At target retirement age	0.42%	0.03%

Self-select options

In addition to the Default, members also have the option to invest in three other lifestyles and ten other self-select funds. The annual charges for these lifestyles during the period covered by this Statement are set out in the tables below

Cash Lifestyle Plan charges and transaction costs

Years to target retirement age	TER	Transaction costs
Growth phase: Up to 6 years before target retirement age	0.51%	0.10%
At target retirement age	0.43%	0.01%

Historic Annuity Purchase Lifestyle Plan charges and transaction costs

Years to target retirement age	TER	Transaction costs
Growth phase: Up to 6 years before target retirement age	0.51%	0.10%
At target retirement age	0.41%	0.03%

New Lifestyle within 6 years Plan charges and transaction costs

Years to target retirement age	TER	Transaction costs
Growth phase: Up to 6 years before target retirement age	0.41%	0.01%
At target retirement age	0.40%	0.04%

The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. This information was provided by Aegon. The underlying funds used within the Default are shown in bold.

Self-select fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
BlackRock - DC Aquila 60/40 Global Equity Index Fund	0.41%	0.01%
BlackRock - DC Diversified Growth Fund	0.60%	0.19%
BlackRock - DC 60/40 Global Growth Fund	0.60%	0.12%
BlackRock - DC Balanced Growth Fund	0.60%	0.09%
BlackRock - DC UK Growth Fund	0.60%	0.10%
BlackRock - DC Aquila All Stocks UK Gilt Index Fund	0.40%	0.04%
BlackRock - DC Aquila Corporate Bond All Stocks Index Fund	0.42%	0.02%
BlackRock - DC Index-Linked Gilt Fund	0.40%	0.04%
BlackRock - DC Cash Fund	0.43%	0.01%
LGIM - DC Retirement Protection	0.45%	0.00%

AVC fund charges and transaction costs

Manager – Fund name	TER	Transaction costs
Equitable Life – With-Profits Fund	1.50%[1]	1.04%

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the

[1] There is no explicit charge. The contractual Guaranteed Investment Return of 3.5% pa is applied following the deduction of the current charge of 1.0% pa for the costs of administration and 0.5% pa for the costs of guarantees.

same assumed investment return but after deducting member borne charges (ie the TER) and an allowance for transaction costs.

- The transaction cost figures used in the illustration are those provided by the managers over the past year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the annualised transaction costs over the past year.
- The illustration is shown for the Default (the Annuity Purchase Lifestyle Plan) since this is the arrangement with the most members invested in it, as well as four funds from the Scheme's self-select fund range. The four self-select funds shown in the illustration are:
  - the fund with the highest before costs expected return – this is the BlackRock DC Aquila 60/40 Global Equity Index Fund.
  - the fund with the lowest before costs expected return – this is the BlackRock DC Cash Fund.
  - the fund with highest annual member borne costs – there are several funds that have the joint higher charge but we have carried out the projections using the BlackRock DC Diversified Growth Fund.
  - the fund with lowest annual member borne costs – this is the BlackRock DC Aquila 60/40 Global Equity Fund, but as this fund is already included in the projections, we have carried out the projections using the BlackRock DC Index-Linked Gilt Fund.

Projected pension pot in today's money

	Default option		BlackRock - DC Aquila 60/40 Global Equity Index (highest return)		BlackRock - DC Cash Fund (lowest return)		BlackRock - DC Diversified Growth Fund (highest cost)		BlackRock - DC Index-Linked Gilt Fund (lowest cost)	
Years invested	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£4,100	£4,100	£4,100	£4,100	£3,900	£3,900	£4,000	£4,000	£4,000	£3,900
3	£4,200	£4,200	£4,400	£4,400	£3,900	£3,800	£4,000	£3,900	£3,900	£3,800
5	£4,400	£4,300	£4,700	£4,600	£3,800	£3,700	£4,100	£3,900	£3,800	£3,700
10	£4,800	£4,500	£5,600	£5,400	£3,500	£3,400	£4,100	£3,800	£3,500	£3,400
15	£5,200	£4,800	£6,600	£6,200	£3,300	£3,100	£4,200	£3,700	£3,300	£3,100
20	£5,200	£4,600	£7,800	£7,200	£3,100	£2,800	£4,300	£3,600	£3,100	£2,900

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £4,000. This is the approximate average (median) pot size for active members.
- The projection is for 20 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The Scheme is closed to new contributions, so the projected pension pot values assume no further contributions will be paid.
- The projected annual returns used are as follows:
- Default option: 1.9% above inflation for the initial years, gradually reducing to a return of 0.8% below inflation at the ending point of the lifestyle.
  - BlackRock – DC Aquila 60/40 Global Equity Index: 3.4% above inflation
  - BlackRock – DC Cash Fund: 1.3% below inflation
  - BlackRock – DC Diversified Growth Fund: 0.3% above inflation
  - BlackRock – DC Index-Linked Gilt Fund: 1.2% below inflation
- No allowance for active management outperformance has been made.

5. Value for members assessment

The Trustee is required to assess the extent to which member borne charges and transaction costs represent good value for members. There is no legal definition of ‘good value’ which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below. The assessment was undertaken taking account of the Pensions Regulator’s Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee reviews all member-borne charges (including transaction costs where available) at least annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was 20 November 2019.

The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee’s investment advisers have confirmed that the fund charges are competitive for the types of fund available to members, particularly in light of the fact that the only DC benefits remaining in the Scheme are in respect of a DC top up to member’s DB benefits and consequently average DC pots are small.

In carrying out the assessment, the Trustee also considers the other benefits members receive from the Scheme, which include:

- the oversight and governance of the Trustee, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the Default and how this reflects the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

Overall, the Trustee believes that members of the Scheme are receiving reasonable value for money for the charges and cost that they incur. The Trustee believe this because the level of charges is in line with other schemes for DC mandates of similar size and members appreciate the option to use DC funds as tax-free cash at retirement and the ability to convert excess DC funds into additional DB pension within the Scheme, if desired.

At the time the Trustee carried out its value for members assessment it was also considering a potential transfer of the Scheme’s DC benefits to the Ensign Retirement Plan. The Ensign Retirement Plan is currently used as the main DC scheme for benefit accrual within the Stena UK group.

Since November 2019 the Trustee has taken advice from its legal advisers and pension consultants and also worked with the Trustee of the Ensign Retirement Plan to put in place an arrangement to proceed with the transfer. The Trustee believes this will greatly improve value for the Scheme’s current DC members for the following reasons:

- The members charges in the Ensign Retirement Plan are significantly lower, whilst it also has a more appropriate default arrangement than the Scheme and it is able to facilitate a wider range of retirement options for members than the current Scheme set-up.
- DC benefits transferred to Ensign can be ring-fenced and transferred back to the Scheme at the point of retirement to replicate the current option to utilise DC benefits as the first source for the member’s Pension Commencement Lump Sum.
- Now that the transfer of AVC benefits from Equitable Life to Utmost Life has taken place there are no attaching guarantees to the AVC benefits which would otherwise have been lost on transfer to Ensign.

6. Trustee knowledge and understanding

The Scheme’s Trustee Directors are required to maintain appropriate levels of knowledge and understanding. This includes: (a) conversance with the key Scheme documents; and (b) the law relating to pensions, the principles of pensions funding and the principles of pensions investment.

The Trustee has measures in place to secure compliance with the legal and regulatory requirements regarding its knowledge and understanding including investment matters, pension and trust law. This, together with the advice available, enables the Trustee to exercise its functions and run the Scheme properly and effectively.

The Scheme documents which include the Trust Deed and Rules and amending Deeds, policy documents, meeting minutes, accounts and investment documentation (including Statement of Investment Principles) are held on a shared file facility to which all Trustee Directors have access. Introduction to this site is included in the new Trustee Director induction process.

The Chair of the Board is an independent professional trustee. His general pensions expertise and experience plus his knowledge of the Scheme documents supports the Board as a whole in fulfilling its knowledge and understanding requirements.

Along with this, the Board has appointed professional advisers. The Board meets regularly with the advisers, for example the investment consultant attends all quarterly Investment Sub-Committee meetings, the administrator has previously attended all Governance and Risk sub-committee (GRSC) meetings and following a sub-committee restructure will attend all Operations Management Sub-Committee (OMSC) meetings. This sub-committee is dedicated to managing Scheme administration matters and is an enhancement to the governance of the Scheme.

The legal adviser attends selected sub-committee and Board meetings. The Actuary attends all Board meetings and the Scheme Secretary position is provided by a professional consulting company.

The advisers report on matters specific to the Scheme plus developments in legislation and the industry to ensure the Board is kept up to date on events. In addition, the advisers are expected to take a proactive stance and raise pertinent matters as they arise.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's advisers would typically deliver training on such matters at Trustee meetings if they were material. During the period covered by this Statement, the Trustee Directors received training on the following topics:

- Liquid Multi Asset Credit
- ESG Considerations re SIPs and DWP Regulatory changes
- GMP Equalisation
- De-risking
- Preparing for Scheme buy in
- RPI Changes

Additionally, the Trustee receives quarterly updates on topical pension issues from its pension advisers.

To help secure compliance with the legal and regulatory requirements, the Trustee Directors have ensured their knowledge and understanding is developed and maintained to enable them to exercise their functions and duties. To support this, they have in place the following:

- The Trustee Directors periodically consider any training requirements and at each Trustee meeting the Trustee Directors agree if any specific training is needed in relation to legislative or other matters that impact the Scheme or in relation to specific matters that the Board will be addressing.
- As a Board the Trustee Directors undertake training as a group and are encouraged to pursue individual training.
- The Board maintains a log of collective training undertaken and individual Trustee Directors are encouraged to maintain a log of personal training.
- All Trustee Directors are required to undertake the Pension Regulator's toolkit within 6-months of their appointment as a Trustee. The toolkit is an on-line learning programme from the Pensions Regulator aimed at helping new trustees of occupational pension schemes meet the minimum level of knowledge and understanding.
- New Trustee Directors undertake an induction process. The process is completed over the first six months of appointment. The Trustee Director is provided with access to the Scheme documents and they are asked to read and become familiar with these. Support training is provided where required.
- New Trustee Directors are also required to complete the Pension Regulator's toolkit and attend an initial trustee training course. Along with that they are invited to take a training needs analysis so specific training needs are identified.
- At the end of the first six-month period a review is undertaken to identify any further actions needed to support the Trustee Director's induction.

During 2019 the Board asked Pi Consulting to carry out a Trustee Effectiveness Review. The report of findings published in October 2019 confirmed that the Board and overall Board effectiveness was sufficient to enable the Trustee Board as a whole to discharge its duties. Furthermore, the review demonstrated that all Trustee Directors were aware of the need to keep their knowledge and understanding up to date with market developments and best practice.

The report also confirmed that the Board worked effectively together and that all Trustee Directors made decisions objectively and collaboratively and felt collectively responsible for achieving success.

The report made some recommendation to enhance further the Governance of the scheme and to enable the main Board to operate more strategically. The main recommendation was to create an Operations and Management sub-committee (OMSC) which would consider all operational and administrative matters on behalf of the Scheme.

This approach to Trustee training, in conjunction with the external support received from advisers, enables the Trustee to have the relevant knowledge and understanding of the scheme documentation (e.g. Trust Deed and Rules, Trustee policies, SIP etc), the relevant principles relating to funding and investment, and the law and regulations relating to pensions and trust, as well as market developments at the appropriate times to effectively run the Scheme and make decisions.

Considering the knowledge and experience of the Trustee Directors and the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg investment consultants, legal advisors), the Trustee believes it is well placed to exercise its functions as Trustee of the Scheme properly and effectively.

[redacted] Date: 23 July 2020

Signed by the Chair of Trustees of the Stena (2016) Retirement Benefits Scheme