

NSK Pension Scheme – DC Governance and Charges Statement

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee to prepare an annual statement regarding governance, which should be included in the annual report. This is the third such statement issued by the NSK Pension Scheme (the Scheme). It covers the period from 1 August 2017 to 31 July 2018 and is signed on behalf of the Trustee by the Chair.

The statement is in relation to the Defined Contribution (DC) section of the Scheme, which is made up of:

- The Additional Voluntary Contribution (AVC) arrangements with the following five providers: Clerical Medical, Janus Henderson, Prudential, Equitable Life and Phoenix Life Assurance; and
- An insurance policy invested with Prudential

This statement covers DC governance and charge disclosures in relation to the following:

- Processing of core financial transactions;
- Member borne charges and transaction costs, including Value for Members; and
- Trustee knowledge and understanding.

Note: the Trustee has excluded any commentary on the 'default arrangement' sections of the regulations, on the basis that no members use the DC Section of the Scheme to meet automatic-enrolment requirements and so no such default arrangement (for that purpose) exists. As such a default Statement of Investment Principles is not produced. However, a copy of the Scheme's full Statement of Investment Principles is attached to this Statement for completeness.

1. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to DC benefits within the Scheme are processed promptly and accurately.

These transactions are undertaken and managed on behalf of the Trustee by XPS, the Scheme administrator, who work directly with the Scheme's DC fund managers.

The Trustee has agreed service levels in place for core financial transactions. These are 2 working days for death settlement cases and 10 working days for all other tasks. The Trustee reviews whether XPS are achieving the agreed timescales at each Trustee's meeting via a quarterly administration report. Where service levels are missed, the Trustee would request additional information from the administrator to understand the reasoning for this, which could be due to third party delays. Where efficiencies in process are identified, the administrators would agree these with the Trustee. This regular review aims to help the Trustee to identify and resolve any issues around the administration of core financial transactions, early prior to these having a detrimental impact on the membership.

During the year, the administrators processed 1,862 tasks (125 AVC related) and completed 1,700 tasks (110 AVC related) of these within the timescales (91% achievement level, 88% for AVC related tasks), which the Trustee believes is acceptable. This is in view of the extensive enhanced transfer exercise that took place during the period covered by this report and led to short-term significant increases in administration cases. Where the service levels have not been met, the Trustee has considered these to either not be delays that detrimentally impacted members or steps to ensure that members have not been detrimentally impacted have been taken.

The Trustee also reviews the payments out of the Scheme via the quarterly administration report which provides a further indication to the Trustee around any delays in the dealing of core financial transactions.

Finally, any member complaints or legislative breaches would be discussed at the Trustee's meeting.

Based on the Trustee's ongoing review of the administration service, the Trustee considers that agreed procedures and timescales have been adhered to over the period covered by this statement.

2. Member Borne Charges and Transaction costs

The Trustee regularly monitors the level of charges borne by members through the funds. These charges comprise:

- Express explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio (TER); and
- Implicit charges, such as the transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

Details of the charges and transaction costs for each fund used by members is given below. These are provided per DC provider for ease.

Janus Henderson

Most members with DC and/or DC AVC benefits in the Scheme are invested with Janus Henderson. We have obtained both charges and transaction costs from Janus Henderson for the period 1 August 2017 to 31 July 2018 for each available fund.

Fund Name	AMC % p.a.	TER % p.a. (including AMC)	Transaction Costs
Janus Henderson Cautious Managed*	0.50%	0.56%	0.11%
Janus Henderson Asia Pacific Capital Growth	0.50%	0.62%	0.24%
Janus Henderson Money Market Unit Trust *	0.25%	0.31%	0.01%
Janus Henderson Institutional Long Dated Gilt*	0.50%	0.55%	0.02%
Janus Henderson Diversified Growth*	0.45%	0.97%	0.04%

* these funds form part of the lifestyle strategy available to members. All funds are available as individual self-select funds as well.

Illustration of the effect of costs and charges

The Trustee is required to illustrate the effect of the costs and charges typically paid by a member on their retirement values (as a "pounds and pence figure").

As the majority of members with DC and/or DC AVC members are invested in the lifestyle strategy, the Trustee has illustrated the effect of the cost and charges at different ages on an example member's projected retirement pot invested in this strategy. The example member is representative of the members invested in this lifestyle strategy. The lifestyle strategy invests in different funds over time and the projections take account of the fund in use at the age specified. The amounts shown relate to an example member aged 33 (based on the youngest member invested in this strategy), starting fund value of £5,500, and a retirement age of 65.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
35	5,772	5,661	111
40	6,511	6,085	426
45	7,344	6,540	804
50	8,128	6,940	1,188
55	8,740	7,226	1,514
60	8,955	7,180	1,775
65	8,422	6,605	1,817

As the funds used on the lifestyle strategy can be selected as self-select funds, we have also illustrated the impact if the same member invested in the highest charged fund (Janus Henderson Diversified Growth) throughout their entire membership (i.e. with no switching into other funds). The amounts shown relate to an example member aged 33 (based on the youngest member), starting fund value of £5,500, and a retirement age of 65.

Age	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
35	5,772	5,661	111
40	6,511	6,085	426
45	7,344	6,540	804
50	8,285	7,029	1,256
55	9,345	7,555	1,790
60	10,542	8,121	2,421
65	11,892	8,728	3,164

The Trustee has not included an illustration for the lowest charged fund, as this is a money market fund and as such it is likely to be inappropriate for the long-term investment of pension savings, for someone aged 33.

The following assumptions have been made for the purposes of the above illustrations:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. Values shown are estimates and are not guaranteed

4. The assumed growth rates (gross of costs and charges) are as follows:

- Janus Henderson Cautious Managed Fund 4.0% p.a.
- Janus Henderson Money Market Unit Trust 1.0% p.a.
- Janus Henderson Institutional Long Dated Gilt Fund 1.5% p.a.
- Janus Henderson Diversified Growth Fund 5.0% p.a.

The transaction costs, as defined in regulation 2(1) of the Occupational Pension Schemes (Charges and Governance) Regulations 2015, should be based on an average of the previous 5 years' transaction costs or, where data is available for fewer than 5 years, an average of transactions costs over the years for which data is available. Currently, less than 5 years of transaction cost information is available from providers, which may result in greater volatility in these costs in the short term. It is anticipated that once information is available over longer periods, the assumptions made in respect of these costs will demonstrate less volatility.

Prudential

AVC Policy

The charges that apply to the Prudential funds are detailed below:

Fund Name	AMC % p.a.	TER % p.a. (including AMC)
Prudential Cash	0.55	0.55
Prudential Discretionary	0.75	0.77
Prudential UK Equity Passive	0.65	0.65
Prudential UK Equity	0.75	0.75
Prudential Fixed Interest	0.75	0.75
Prudential Global Equity	0.75	0.75
Prudential Index-Linked	0.75	0.75
Prudential International Equity	0.75	0.75
Prudential UK Property	0.75	1.69
Prudential Long-Term Gilt Passive	0.65	0.65
Prudential Ethical	0.75	0.75
Prudential Deposit*	0.00	0.00
Prudential Cash Accumulation With-Profits [^]	0.00	0.00

* Prudential Deposit fund - Prudential has advised that there is no explicit charge for the deposit fund and under the terms of this fund, the prevailing bank of England Interest Rate is applied.

[^] Prudential Cash Accumulation With-Profits - Prudential have confirmed that there is no explicit charge for this fund. An amount to cover the expenses of running the with-profits fund is deducted from the fund before bonuses are declared. This is currently restricted to 1% p.a. although there is no guarantee that this will not change in the future.

Despite the requirement since 3 January 2018 for all investment managers to provide transaction costs in a consistent basis, to date, Prudential have not disclosed details of the transaction costs that apply.

The Trustee has requested this information on a number of occasions and continues to liaise with Prudential to try and obtain this information to share with members.

Trustee Transfer Policy

All members are invested in the Prudential With-Profits Fund. The charging structure for this policy changed on 16 July 2018.

Up until 16 July 2018, a TER of 0.75% p.a. applied, plus a 5% bid offer spread and a £10 annual policy fee per member. Specific policy allocation rates apply but they are dependent upon term until retirement and the amount of transfer value. These are allocated according to the table below:

Term to Normal Retirement Date	Transfer Value				
	£0-£999	£1,000-£9,999	£10,000-£24,999	£25,000-£49,999	£50,000 +
0-10 Years	101%	103%	103%	104%	105%
10-20 Years	101%	103%	104%	104%	105%
20 Years +	102%	104%	106%	106%	106%

These allocation rates helped to offset the 5% bid offer spread applied.

From 16 July 2018, all direct charges relating to the policy have been removed by Prudential. The With-Profits Fund has a charge of 1% p.a. deducted from the fund to cover expenses prior to the declaration of any bonus.

Clerical Medical

The charges and transaction costs that apply to the Clerical Medical Funds are detailed below:

Fund Name	TER % p.a. (including AMC)	Transaction Costs
Clerical Medical Lifestyle Balanced	0.59%	0.17%
Clerical Medical Far Eastern	0.59%	0.29%
Clerical Medical Japanese	0.59%	0.18%
Clerical Medical Lifestyle Retirement	0.59%	0.15%
Clerical Medical Fidelity MoneyBuilder Income	1.19%	0.08%
Clerical Medical UK Growth	0.59%	0.23%
Clerical Medical Veritas Asian	1.09%	0.58%
Clerical Medical Lifestyle UK Growth	0.59%	0.23%
Clerical Medical Lifestyle Cautious	0.59%	0.17%
Clerical Medical Lifestyle Non-Equity	0.59%	0.13%
Clerical Medical Lifestyle Halifax	0.59%	0.00%

Clerical Medical North American	0.59%	0.10%
Clerical Medical European	0.59%	0.17%
Clerical Medical UK Property	0.59%	0.19%
Clerical Medical Global Equity Tracker	0.59%	0.11%
Clerical Medical Dynamic Return	1.34%	0.28%
Clerical Medical International Growth	0.59%	0.22%
Clerical Medical Invesco Perpetual High Income	1.39%	0.07%
Clerical Medical BlackRock World (Ex UK) Equity	0.59%	-0.02%
Clerical Medical BlackRock UK Equity	0.59%	0.10%
Clerical Medical BlackRock Over 5 Year Index Linked Gilt	0.59%	0.01%
Clerical Medical BlackRock Corporate Bond All Stocks	0.59%	-0.02%

Equitable Life

The charge and transaction cost that applies to the Equitable Life Fund are detailed below:

Fund Name	TER % p.a. (including AMC)	Transaction Costs
Equitable Life With Profits Fund	1.00%	0.01%

In addition, there is a 0.5% annual charge for the cost of providing the guarantees under with-profits contracts.

Phoenix Life Assurance

The with-profits funds held with Phoenix Life does not have an explicit charge. Instead expenses are deducted from the underlying asset shares which could have an impact on the bonus declared. Prior to 1 October 2017, the expenses deducted were prescribed in the '2012 Scheme' which set the basis of the management of the with-profits fund for 5 years since it transferred from London Life to Phoenix Life. Since 1 October 2017, expenses representing the actual level of expenses attributed to the policy are deducted from the underlying asset shares before bonuses are declared. The level of expenses applicable in the period have not been provided by Phoenix Life, despite requests from the Trustee. The Trustee will continue to liaise with Phoenix Life to try and obtain this information to share with members.

Value for members

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by DC section and AVC members and the extent to which those charges and costs represent good value for money for members.

There is no legal definition of "good value" and the process of determining this for members is a subjective one. Based on advice from the Scheme advisers, Aon, the Trustee has established a cost-benefit analysis framework in order to assess whether the member borne charges deliver good Value for

Members. The framework has been designed with reference to the statutory guidance. The assessment against the framework is relevant to the current membership. The cost part of the analysis considers the costs and charges members pay. The benefit side of the analysis considers the quality of Scheme Governance and Management, the quality of Scheme Administration, the quality of Scheme Investments and the quality of Scheme Communications. It also considers any special terms that apply to members under the relevant DC and DC AVC policy.

The Trustee has carried out a detailed assessment of the Scheme over the period to consider whether good value is provided to members in terms of the benefits and services they receive given the level of charges paid.

- **Scheme Governance and Management:** The Scheme is governed by an experienced group of Trustee Directors including a professional, independent Chair. The Board regularly reviews information about the performance of Scheme investments and DC Section members and decisions being made, amongst other information. This helps determine an appropriate strategy to support DC members and make improvements.
- **Scheme Administration:** The Trustee regularly monitors the Scheme administration and over the period found that the necessary administration standards were being achieved.
- **Scheme Investments:** The Scheme provides members with an appropriate range of lifestyle and self-select fund options. The investment strategy and performance is regularly monitored and reviewed by the Trustee.
- **Scheme Communications:** The Scheme provides members with regular, clear communications regarding the choices open to members, as well as annual benefit statements and 'at retirement' communications.
- **Special terms –** Special terms apply to members invested in Phoenix Life policy, which include valuable guaranteed annuity rates at retirement which would be lost on transfer to another arrangement. Members invested in the Equitable Life With-Profits fund have a 3.5% p.a. minimum guaranteed interest rate. Members invested in the Prudential Cash Accumulation With-Profits fund are entitled to guaranteed bonus rates.

Under the Trustee's assessment framework, the Trustee believes that the Scheme delivers value for its members. The Trustee will continue to monitor the Scheme against the Regulator's governance standards to ensure it continues to deliver value.

3. Trustees' Knowledge and Understanding (TKU)

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

The comments in this section relate to the Trustee as a body in dealing with the whole Scheme and are not restricted to the DC section of the Scheme. The Trustee meets the Pension Regulator's TKU requirements (as set out under Code of Practice 7).

With the exception of one Trustee Director, all Trustee Directors have successfully completed the Pension Regulator's e-learning toolkit. With the exception of one Trustee Director, all Trustee Directors have successfully gained the PMI award in Pension Trusteeship certificate. Each Trustee Director takes personal responsibility for keeping themselves up-to-date with relevant developments to meet their training needs. This includes attending pension conferences, reading pension related material supplied by Aon, XPS and the PLSA's Viewpoint publication and training provided at Trustee's meetings. A formal training log is maintained by the Secretary to the Trustee to record the training undertaken.

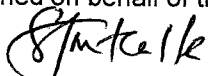
In addition to the skills within the Trustee board, the Trustee also engages with appointed professional advisers regularly to ensure that the Scheme is run and functions are exercised properly. Regular Trustee's meetings are held throughout the year where advice is provided, discussions are held and decisions are taken in relation to any matters material to the Scheme's running. The wider knowledge and background of the Trustee from each individual's 'day job', which include positions in the Company's finance and HR departments, also assist in the Trustee functioning as an effective body.

During the year covered by this statement, in relation specifically to the DC and DC AVC assets, the Trustee:

- **Undertook a review of current practice against the July 2016 DC Code of Practice** – This review provided training to the Trustee on the legal requirements and suggested best practice around the following areas: the trustee board, fund management skills, administration, investment governance, value for members and communicating and reporting. This demonstrates the Trustee's knowledge relating to; the law relating to trusts (1), the law relating to pensions (2), Running a Defined Contribution (DC) occupational arrangement (3),
- **Undertook a review of all the DC/AVC arrangements.** This demonstrated the Trustee's knowledge relating to; the basic principles relating to the investment of assets (4), Investment choice and the implications for members (5), Fund management (6), a working knowledge of the scheme's other relevant documents (9).
- **Undertook a review of the Janus Henderson lifestyle strategy** – This demonstrated the Trustee's knowledge relating to; the basic principles relating to the investment of assets (4), Investment choice and the implications for members (5).
- **Reviewed and updated the Statement of Investment Principles** – This demonstrated the Trustee's knowledge relating to a working knowledge of the scheme's Statement of Investment Principles (SIP) (8)
- **Undertook training around the General Data Protection Regulations** – This covered an overview of the rights of data subjects and implications of being a data controller including essential documentation such a GDPR policy. This demonstrates the Trustee's knowledge relating to the law relating to trusts (1).
- **Undertook training around improving member choice at retirement** – This covered the options and support that could be provided to members in the approach to retirement (covering both DB and DC). This led to the Trustee making improvements to the retirement communication issued to members and demonstrates the Trustee's working knowledge of the scheme's other relevant documents (9).
- **Consolidation of the Trust Deed and Rules** – The Trustee undertook to consolidate the Scheme Rules demonstrating the Trustee's knowledge relating to A working knowledge of the scheme's own trust documentation (7).

The numbers in brackets relate to the relevant sections of the DC Scope document which sets out the DC areas that trustee boards should have knowledge and understanding of.

Signed on behalf of the Trustee of the NSK Pension Scheme:



Name/Position: Steve Metcalfe/Chair of Trustee

STEVE METCALFE, TRUSTEE DIRECTOR

Date of signing:

19/7/19.