The Metal Box Pension Scheme
Statement regarding DC governance for the year ended 31 March 2019

Introduction

This Governance Statement sets out information the Trustee is required to provide by law for the period from 1 April 2018 to 31 March 2019. It demonstrates how the DC Section of the Metal Box Pension Scheme (Scheme) met the minimum governance standards for money purchase schemes in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

In June 2019 benefits in the DC Section of the Scheme transferred to The Aon MasterTrust. Since June 2019, the DC Section of the Scheme no longer has any members. The Governance Statement is based on the arrangements that were in place on the Standard Life platform as at 31 March 2019.

Default arrangement

The Trustee's belief has been that members should make their own investment decisions based on their individual circumstance. However, the Trustee recognised that some members may not be comfortable, or may be unwilling, to make their own investment decisions. For this reason, the Trustee provided a default investment option for the DC Section for members who did not wish to make their own investment decisions and to satisfy the qualifying scheme requirements for auto-enrolment.

Extracts relating to the default arrangement from the Statement of Investment Principles (SIP) as at 31 March 2019 are included below and in the Appendix. The Appendix contains Sections 2.2 and 3 of the SIP which addresses the default investment strategy. The full SIP as at 31 March 2019 is available to download from Scheme website: www.metalboxpensions.co.uk.

The default strategy was based on the technique of life-styling, whereby a member's funds are gradually switched from growth-seeking assets to assets which best match the member's retirement objective as the member approaches retirement. This strategy is designed to be appropriate for the average member taking into account the membership demographics and risk tolerance. It aims to balance the level of risk and expected return over the working lifetime of the member, rather than to maximise return.

Under the default arrangement a member's DC account was gradually moved across four funds (SL BlackRock ACS 30:70 Global Equity Tracker (Hedged) Pension Fund, SL MB Diversified Investment Pension Fund, SL MB Mixed Bonds Pension Fund A and SL BlackRock Aquila Connect Cash Pension Fund) over a member's chosen term to retirement. The aim was to allow members to maximise returns in their earlier years, and protect the value of their retirement income as the member approached retirement. More details of how this was achieved are included in the next section on risk management.

At the point of reaching his/her chosen retirement date, a member would have been invested 75% in a fund designed to move broadly in line with annuity prices and 25% in a cash fund. This position reflects the Trustee's view of members' likely at-retirement decisions at the time the strategy was implemented (June 2012) – namely taking 25% of their pot as a tax-free lump sum and buying an annuity with the remaining 75%.

The Trustee did not carry out a full review of the default investment strategy on the basis that the current provision in the DC Section was under a wider review. However, the Trustee reviewed the performance of the default arrangement at each quarterly Trustee meeting in order that appropriate action could be taken if required should the default arrangement no longer meet the requirements of the default strategy. No changes were made during the year.

Risk Management

The Trustee recognised specific investment risks in respect of DC members of the Scheme. These risks are relevant for members at different points in their life, and the Scheme's default investment strategy aimed to manage these risks throughout their journey through life-styling.

The key investment risks faced by members are summarised below. This list is not exhaustive as there are many other risks associated with investing, but these are considered to be the most likely to have hindered members and the Trustee from achieving their objectives. The Trustee also acknowledged the risk that members may make an inappropriate investment decision or inappropriate choice about how they draw their retirement benefits. This risk can be mitigated by good member communication, positive engagement and education.

Statement regarding DC governance (continued)

The Trustee acknowledged that the risk control measures outlined below do not render the investment policy free of risk, rather they endeavoured to balance the need for risk control and the need for assets which are likely to achieve the desired investment outcome. It should be noted that ultimately the risks fall with the member and not the Trustee, but the Trustee has sought to mitigate them where possible.

Inflation Risk
This is the risk that investments do not provide a return at least in line with inflation, such that the "purchasing power" of the ultimate fund available to provide benefits is not maintained.

This risk is more significant for members who are a long way from retirement as the ultimate purchasing power is more likely to diminish the further the member is from retirement.

To mitigate this risk, the Trustee provided an investment option which was expected to provide a long-term rate of return that exceeded inflation.

Capital Risk
This is the risk that a member incurs a capital loss on their fund assets and there is only a limited period prior to retirement to recover the loss. This is more likely to affect members close to retirement as at this point they will have the largest fund size and less time to recoup any losses.

To mitigate this risk, the Trustee provided an investment option which offered capital protection. A money market (or "cash") fund is an example of such an option. The default strategy reflected a gradually reducing risk profile (in terms of both capital loss and volatility of returns).

Conversion Risk
More broadly this refers to the risk that a member's assets at retirement are not suitably matched with their retirement objective. In relation to purchasing a pension at retirement, it refers to the risk that relative market movements close to retirement may lead to a substantial reduction in the pension secured. Members close to retirement are most likely to be affected by this risk.

To mitigate this risk the Trustee provided a range of funds which allowed members to align funds with their retirement objectives. Members who invested in the Scheme's default strategy had funds that were invested in assets which generally reflected changes in long-term interest rates in the belief that the cost of annuities in the future would be based, at least in part, on these rates.

Opportunity Cost Risk
This is the risk that members do not take sufficient risk at a stage in their lives when they are most able to, resulting in a smaller than expected fund at retirement. The risk is most relevant for members with a longer term to retirement as that is the stage where they are most able to invest in more aggressive, growth-seeking assets.

The Trustee mitigated this risk by providing an investment option which invested in growth-seeking assets, alongside providing communication and educational resources for members. The default strategy reflected a gradually reducing expected risk/return profile through the lifestyle profile, taking as much risk as deemed appropriate based on term to retirement.

Manager Risk
This is the risk that the chosen investment manager underperforms the benchmark against which the investment manager is assessed in the long term. To the extent that this benchmark reflects the return required to achieve the member's objective, this risk would be more acute for members close to retirement as they will have less time to recover and achieve their objective.

This risk was managed through a thorough qualitative and quantitative assessment of managers prior to appointment, and ongoing monitoring of their performance, intervening where necessary.

Value for Members risk
This is the risk that the Scheme fails to offer value to members, i.e. the charges levied on members' accounts are not commensurate with the level of service received. Member charges varied across the default strategy and between different self-select options, as did the relative importance of each service area. Therefore this risk is relevant for all members, irrespective of term to retirement.

The Trustee reviewed annually, as far as possible based on the data available, all sources of fees levied on member accounts and service levels provided (including investment performance) to determine whether value is present.

Statement regarding DC governance (continued)

Processing of financial transactions

The core financial transactions in the Scheme year included the receipt and investment of contributions, switches between the different investment funds that were available, and payments out of the Scheme, e.g. to other pension arrangements and to members and their beneficiaries.

The Trustee had overall responsibility for the transactions in the Scheme year, agreed processes and response times with the sponsoring employer and with Equiniti, the Scheme's administrator, and Standard Life, which provided DC administration services.

The Scheme's administrator and DC provider processed benefits in accordance with internal processes and controls to ensure that all core transactions were processed promptly and accurately.

The Trustee monitored the performance of the Scheme's administrator and DC provider by:

- reviewing quarterly service performance reports to ensure that all such transactions were processed in a timely manner;
- reviewing the respective AAF 01/08 reports; and
- in the case of the DC provider, maintaining a close relationship with the Scheme's administrator, and obtaining feedback from them regarding the level of service provided by the DC provider.

If transactions would not have been processed within the agreed timescales, the Trustee had appropriate steps in place to ensure that members were not disadvantaged.

Overall, the Trustee was satisfied that the Scheme's administrator and DC provider had robust systems and capability to process financial transactions promptly and accurately and in line with agreed service levels. The Trustee was also satisfied that any complaints from members were dealt with appropriately.

Charges and transaction costs

The annual management charges ("AMCs") and total expense ratios ("TERs"), as at 31 March 2019, applicable to the funds underlying the default arrangement and the other investment funds available, are set out in the table below.

Fund	AMC % (1)	TER % (2)
SL BlackRock Aquila Connect Cash Pension Fund	0.45	0.46
SL Corporate Bond Pension Fund	0.45	0.46
SL Property Pension Fund	0.45	0.48
SL MB Mixed Bond Pension Fund A	0.45	0.51
SL MB Mixed Bond Pension Fund B	0.45	0.51
SL Ethical Pension Fund	0.45	0.46
SL Majedie UK Equity Pension Fund	1.20	1.22
SL BlackRock ACS 30:70 Global Equity Tracker (Hedged) Pension Fund	0.53	0.54
SL iShares UK Equity Tracker Pension Fund	0.45	0.46
SL MB Diversified Investment Pension Fund	0.45	0.62
SL Veritas Global Focus Pension Fund	1.20	1.34
SL JP Morgan Emerging Markets Pension Fund	1.13	1.28

1) The AMC (Annual Management Charge) included all fixed provider costs and comprised the platform charge for investment administration, underlying fund manager AMC and any Third Party charge. This figure accounts for the Scheme's 0.55% discount with Standard Life.

2) The TER (Total Expense Ratio) represents the total cost of running the Fund. It included the AMC as well as additional expenses incurred by the underlying fund manager (including depository and custodial charges and audit, registration, and compliance fees). The TER changes from time to time as these additional expenses change.

The Trustee is required, as far as is reasonable and practical, to calculate the transaction costs paid by members during the assessment period and assess the extent to which these transaction costs represent good value for money. If transaction costs are not available, the Trustee must instead state the lengths it is going to in order to obtain transaction costs.

Statement regarding DC governance (continued)

Broadly, transaction costs can be split into three areas:

1) Those incurred by members as part of changes in the fund range

2) Those incurred by members as their DC account gets moved through the funds in the default strategy

3) Those incurred in the day-to-day running of the funds (both in the default and self-select options)

No changes were made to the fund range during the Scheme year, therefore costs incurred in respect of 1) are not applicable.

The Trustee were satisfied that the costs incurred in respect of 2) were reasonable in light of the benefits conferred, therefore provide value for members.

The transaction costs incurred in respect of 3), for the 12 months to 31 March 2019, are set out in the table below.

Fund	Aggregation of Transaction Costs
SL BlackRock Aquila Connect Cash Pension Fund	0.00%
Standard Life Corporate Bond Pension Fund	0.03%
Standard Life Property Pension Fund	0.09%
SL MB Mixed Bond Pension Fund A	0.00%
SL MB Mixed Bond Pension Fund B	0.09%
Standard Life Ethical Pension Fund	0.11%
SL Majedie UK Equity Pension Fund	0.08%
SL BlackRock Aquila Co 3070 Current Hedged Global Equity Index Pension Fund	0.00%
SL iShares UK Equity Index Pension Fund	0.00%
SL MB Diversified Investment Pension Fund	0.05%
SL Veritas Global Focus Pension Fund	0.13%
SL JP Morgan Emerging Markets Pension Fund	0.25%

Source: Standard Life (data, as at July 2019).

The Trustee viewed the ongoing transaction costs in respect of 3) as acceptable in the context of the funds' objectives and the funds' performance net of the transaction costs.

Projected impact of costs and charges

Below is an illustrative example of the cumulative effect over time of the member-borne charges and costs on the value of a member's money purchase savings. This considers the impact of the total expense ratio and ongoing frictional transaction costs (set out in the tables above) across the Scheme's fund range available to members as at 31 March 2019.

The projections are shown for the following four lifestyles/funds:

- The Default Lifestyle – as this was the investment option members were defaulted into unless they choose otherwise
- SL Veritas Global Focus Pension Fund – as this was the fund with the highest annual charges and highest accumulation rate
- SL BlackRock Aquila Connect Cash Pension Fund – as this was the fund with the lowest annual charges and lowest accumulation rate
- SL Mixed Bonds Pension Fund A – to ensure information is provided on a broad range of asset classes that were available.

Statement regarding DC governance (continued)

Years	Default Lifestyle		SL Veritas Global Focus Pension Fund		SL BlackRock Aquila Connect Cash Pension Fund		SL MB Mixed Bonds Pension Fund A	
	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted	Gross of all charges	After all charges and costs deducted
1	£6,750	£6,690	£6,750	£6,640	£6,550	£6,490	£6,610	£6,550
3	£10,500	£10,200	£10,500	£10,000	£9,710	£9,490	£9,930	£9,690
5	£14,500	£14,000	£14,500	£13,600	£12,900	£12,500	£13,300	£12,900
10	£26,200	£24,500	£26,200	£23,200	£21,300	£20,000	£22,600	£21,100
15	£40,500	£36,700	£40,500	£34,000	£30,100	£27,700	£32,700	£29,900
20	£57,800	£50,800	£57,800	£46,100	£39,400	£35,400	£43,800	£39,000
25	£78,600	£67,000	£78,600	£59,600	£49,200	£43,400	£55,900	£48,700
30	£103,000	£85,600	£103,000	£74,500	£59,600	£51,600	£69,200	£58,900
35	£133,000	£106,000	£133,000	£91,100	£70,700	£60,000	£83,800	£69,700
40	£167,000	£128,000	£168,000	£109,000	£82,400	£68,800	£99,600	£81,100
45	£195,000	£146,000	£210,000	£129,000	£94,900	£77,900	£116,000	£93,200
NRD	£204,000	£150,000	£229,000	£138,000	£100,000	£81,700	£124,000	£98,300

Source: Standard Life (calculations, as at July 2019).

Notes:

- Values shown are estimates and are not guaranteed;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Assumes inflation of 2.0% per annum;
- Assumes starting fund value of £5,000;
- Assumes a salary of £20,000;
- Assumes salary inflation of 3.5% per annum;
- Assumes a total contribution rate equal to 8% of salary;
- Contributions are assumed to increase by 3.5% per annum;
- Assumes charges in future years are equal to charges today, and frictional transaction costs in the future are the same as those over year to 31 March 2019 or the latest available 12-month period;
- For the default strategy, assumes a member is aged 18 years old now;
- NRD refers to the Normal Retirement Date of the Scheme. Assumes a NRD of 65 years old;
- Where the transaction cost is negative, a 0% cost is assumed in the calculation;
- The accumulation rates used, as set out below, are those provided by Standard Life. Returns are as follows:

	Fund	Real accumulation rate per annum (gross of charges)
Default Lifestyle Funds	SL MB Mixed Bond Pension Fund A	0.50%
	SL MB Diversified Investment Pension Fund	3.00%
	SL BlackRock Aquila Co 3070 Current Hedged Global Equity Index Pension Fund	3.00%
	SL BlackRock Aquila Connect Cash Pension Fund	-0.50%
Self-Select Funds	SL Veritas Global Focus Pension Fund	3.00%
	SL BlackRock Aquila Connect Cash Pension Fund	-0.50%
	SL MB Mixed Bond Pension Fund A	0.50%

Source: Standard Life (data, as at July 2019).

Statement regarding DC governance (continued)

The above illustration has been prepared with due regard to the Department for Work and Pensions' guidance ("Cost and charge reporting: guidance for trustees and managers of occupational schemes"), published in February 2018, and is based on FCA COBs rules.

Value for members

The Trustee was committed to ensure members obtained value for money. It monitored fund performance and fees paid by members on a regular basis with support from its professional advisers.

The Trustee concluded that, in accordance with The Pensions Regulator's guidance and regulations, value for members was demonstrated through certain aspects of the arrangements, including:

- Investment returns in excess of the charges paid by members for most options over the time horizon assessed.
- Passive investment funds with a strong and consistent ability to track market indices effectively.
- Active investment funds options.
- An overall well-diversified investment portfolio of investments, subject to regular monitoring.
- Robust internal controls and operations from the platform manager.
- Generous discretionary ill-health and death in service benefits.
- Effective communications, for example bespoke benefit statements, factsheets, newsletters and a scheme website including a modeller.

The review found that members of the Scheme who invested in the default arrangement paid, on average, a fee of 0.57% p.a. The Trustee did not view this charge as high or expensive, a view supported by the position of the charge cap set by the government to represent a reasonable charge being 0.75% p.a.

Trustee knowledge and understanding

The Trustee Directors are required to be conversant with the documents governing their scheme (for example the Trust Deed & Rules and SIP), and have an appropriate level of knowledge and understanding of pensions and trust law, and principles of investment. The Trustee ensured this requirement was met in a number of ways to ensure that decisions were made effectively. This included (but was not limited to) a comprehensive induction process for newly appointed Trustee Directors, formal training provided by the Scheme's professional advisers, attendance at external courses/webinars and the completion of the on-line Toolkit training provided by the Pensions Regulator.

A training log maintained by the Scheme secretary was reviewed at each trustee meeting along with the Scheme's business plan. Formal assessments of Trustee's "knowledge and understanding" and "effectiveness", using a questionnaire designed for this purpose, have been carried out every three years to identify any additional training needs. The last assessments completed in June 2018 provided satisfactory results. A few areas for improvement were identified and implemented.

The combined knowledge and understanding of the Trustee Directors, together with the advice which is available to them, enabled the Trustee to properly exercise its functions.

APPENDIX
DEFAULT INVESTMENT STRATEGY
Extracts from the Statement of Investment Principles (SIP) as at 31 March 2019

2.2 Investment options

2.2.1 Details of the current investment arrangements and options are detailed in Appendix C. A brief description of these options is provided below.

a) Default option:

The Trustee believes that members should make their own investment decisions based on their individual circumstance. However, the Trustee recognises that some members may not be comfortable, or may be unwilling, to make their own investment decisions. For this reason, the Trustee provides a default investment option for the DC Section for members who do not wish to make their own investment decisions and to satisfy the qualifying scheme requirements for auto-enrolment.

The default strategy is based on the technique of lifestyling, whereby a member's funds are gradually switched from growth-seeking assets to assets which best match the member's retirement objective, however the objective is defined, as the member approaches retirement.

The strategy is designed to be appropriate for the average member taking into account the membership demographics and risk tolerance. It aims to balance the level of risk and expected return over the working lifetime of the member, rather than to maximise return.

3.1 Aims and objectives of the default strategy

3.1.1 The Trustee's aims and objectives in relation to the default strategy are outlined in Section 2.1, titled "Investment Objectives".

3.1.2 The default strategy is designed to reflect members' changing risk and return requirements over time (by the Trustee's estimation). Broadly, the strategy takes on greater risk (while targeting a greater expected return over the long term) earlier in the strategy, where there is more time in the future to make up any investment losses. The strategy progressively de-risks into lower expected risk/return assets as retirement approaches – reflecting the lower length of time until retirement to make up any investment losses.

3.1.3 The default strategy targets a mixture of bonds (75%) and cash (25%) at retirement. This allocation has been designed with the aim of broadly matching fixed annuity price movements as members approach retirement, and reflects members taking a 25% cash lump sum at retirement. As at the date of this Statement of Investment Principles, the default strategy (including the asset allocation at the point of assumed retirement) is under review.

3.2 Trustee policies in relation to the default strategy

3.2.1 The kinds of investments to be held

The kinds of investments to be held within the default strategy are shown in Appendix C. The strategy is fully invested in equities in the earlier years, reflecting the asset class with the highest expected return over the long term (albeit with the highest expected risk in terms of drawdown and volatility of returns). It then moves into a more diversified mix of assets including equities, corporate bonds, property and index linked gilts. This diversification reflects a lower expected return over the long term, albeit with a lower expected level of risk, reflecting the lower capacity for risk as members begin to approach retirement. Finally, the strategy moves towards the bonds and cash mix, as set out in 3.1.3 above

3.2.2 The balance between different kinds of investments

The balance between different investments within the default strategy in shown in Appendix C. The rationale for the progressive change in the asset mix through the strategy is set out in 3.2.1 above

3.2.3 Risks (including the ways in which risks are to be measured and managed)

Risks applicable to the Scheme as a whole are shown in Section 4, titled "Risk Management". All of the risks shown, including how they are measured and managed, are relevant to the default strategy

Statement regarding DC governance (continued)

3.2.4 Expected return on investments

Target objectives for each fund used with the default strategy are shown in Appendix C

3.2.5 Realisation of investments

Funds used within the default strategy are unitized, pooled funds which are dealt daily

3.2.6 Social, environmental or ethical considerations

The extent to which the Trustee considers social, environmental or ethical issues is shown in Section 5, titled "Governance"

3.2.7 Exercise of rights (including voting rights) attaching to investments

The extent to which the Trustee considers the exercise of rights within the default strategy is shown in Section 5, titled "Governance"

Signed for and on behalf of the Trustee of the Scheme

G Fishlock
Chair of Trustee
18 September 2019