

GAM (U.K.) LIMITED PENSION AND LIFE ASSURANCE SCHEME

CHAIR'S STATEMENT OF DC GOVERNANCE

YEAR ENDED 31 MARCH 2019

Chair's Statement of DC Governance for the period from 1 April 2018 to 31 March 2019

This statement explains how the Trustees have complied with the governance standards set out in legislation for defined contribution (DC) schemes as required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 ('the Regulations').

This statement covers the Money Purchase (MP) Section and legacy external AVCs of the Scheme.

It is in respect of the period 1 April 2018 to 31 March 2019 and covers six areas:

1. Assessment of the Scheme against the Pension Regulator's (tPR's) Code of Practice 13;
2. The Scheme's investment strategy (including the default);
3. The processing of core financial transactions;
4. Charges and transaction costs;
5. Assessment of the value the Scheme provides to members; and
6. Maintaining the Trustees' knowledge and understanding.

1. Assessment of the Scheme against the Pension Regulator's (tPR's) Code of Practice 13

The Pensions Regulator (tPR) has published a Code of Practice 13 entitled "Governance and administration of occupational trust-based schemes providing money purchase benefits". The Trustees undertook an assessment of the Scheme's processes and activities against this Code along with the associated practical guides.

The Trustees believe that the Scheme complies with all the legal requirements identified in the Code and undertakes the majority of the additional requirements expected by the Pensions Regulator and in many areas exceeds these expectations.

2. The Scheme's MP Section investment strategy

The Statement of Investment Principles (SIP) sets out the aims and objectives of the Scheme's investment strategy. In particular it covers the Trustees' investment policy for the MP Section assets, including objectives, risks, expected returns and the design of the default investment strategy (see pages 9-12 of the latest SIP attached and dated September 2019).

The performance of the MP Section funds, including those underlying the default investment strategy, is reviewed by the Trustees in detail at least every six months.

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The default investment strategy

During the period covered by the Statement, the default investment strategy has been the Core Lifecycle as follows:

Time period	Asset allocation	Notes
Accumulation phase	50% LGIM 30:70 Global Equity Index Fund 50% Fulcrum Diversified Core Absolute Return (DCAR) Fund	These are the funds in which assets are invested in the period up to 10 years before Target Retirement Age
Consolidation phase	Investments move gradually according to a pre-set matrix from the Global Equity funds to: - LGIM 0-5 Year Gilt Index Fund - Fulcrum DCAR Fund	The consolidation Phase start date is 10 years before Target Retirement Age
At Target Retirement Age	67% Fulcrum DCAR Fund 33% LGIM 0-5 Year Gilt Index Fund	This is the asset allocation at the end of the Consolidation Phase.

The last review of the default investment strategy and the other investment strategies was completed in 2017. The next review is scheduled for 2020.

Other investment strategies available during the statement period

In addition to the default lifecycle arrangement, members had access to a Cash Lifecycle strategy.

Members can also build their own investment portfolios and the range available during the statement period was as follows:

- Four multi-asset managed funds, which make up the "Ready-made Active Portfolios"; and
- 17 Self-Select asset-class specific funds, covering equities, hedge funds, bonds and cash split between the "Core" and "Extended" fund range. In addition, a number of members held units in the GAM Absolute Return Bond Fund which was in the process of being liquidated during the year.

Details are set out in the SIP and members can obtain more explanatory information and guidance through the Scheme's Investment Guide Booklet.

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3. Processing core financial transactions

The Trustees have a specific duty to ensure that core financial transactions in relation to defined contribution benefits are processed promptly and accurately. The Pensions Regulator lists core financial transactions as including:

- Receipt and investment of contributions
- Transfer of member assets into and out of the scheme
- Transfers between different investments within the scheme
- Payments to and in respect of members.

These transactions are undertaken on the Trustees' behalf by the Scheme's administrator, Willis Towers Watson.

The Trustees regularly monitor the core financial transactions of the Scheme. This is achieved through the review of quarterly reporting from the Scheme's administrator, including performance against agreed service levels. Monitoring of performance reports and online activities provides ongoing assurance that the key processes and controls at Willis Towers Watson are operating effectively.

When issues arise, the Trustees works with GAM and Willis Towers Watson to ensure that appropriate action is taken. Last year, we reported a deterioration in service standards and explained the remedial action taken by GAM's Compensation and Benefits Team. We are pleased to report the improvement in service standards has been maintained during the year covered by this Statement. SLAs were maintained at a constant level of around 95% with priority being given to payment cases - i.e. retirements and transfers out.

The Trustees also regularly commission Common Data and Conditional Data reports from Willis Towers Watson to ensure that correct and appropriate data is held and the Scheme's financial statements are audited annually by PwC.

The Trustees are satisfied that the requirement to process core financial transactions promptly and accurately has been met during the year in relation to the MP benefits provided by the Scheme.

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4. Charges and transaction costs

The Regulations require the Trustees to calculate the charges and transaction costs borne by members with MP benefits.

Charges

The current TERs along with the reported transaction costs over the year to 31 March 2019 for the funds available within the Scheme's MP Section are set out in the table below:

Fund	Charges (% of funds p.a.)	Aggregate transaction costs (% of funds p.a.)
GAM Star Defensive	0.50	0.00
GAM Star Balanced	0.50	0.01
Fulcrum Diversified Core Absolute Return**^	0.65	0.19
GAM Star Growth	0.50	0.00
LGIM UK Equity Index	0.10	-0.02
GAM UK Equity Income^	0.75	0.54
LGIM 30:70 Global Equity Index**	0.20	0.04
GAM Global Diversified	1.05	0.08
LGIM Over 15 Year Gilts Index	0.10	-0.01
LGIM Over 5 Year Index-Linked Gilts Index	0.10	0.03
LGIM 0-5 Year Gilt Index Fund**	0.10	0.14
LGIM Cash	0.125	0.00
GAM Star Asian Equity	0.85	0.14
GAM Star Japan Equity	0.85	0.07
GAM Star China Equity	0.85	0.59
GAM Star Continental European Equity	0.85	0.61
GAM North American Growth	0.90	0.01
GAM Star Global Rates	1.00	1.51
GAM Emerging Markets Equity	0.75	1.21
GAM Systematic Diversified Macro	0.50 + perf fee*	0.09
LGIM Global High Yield	0.40	0.10
LGIM Hybrid Property	0.50	0.03

*The GAM Systematic Diversified Macro fund has a fixed management fee of 0.50% pa plus 0.25% performance fee

**The funds used in the Core Lifestyle strategy

^The GAM UK Equity Income fund replaced the GAM UK Diversified fund during the year

Default investment strategy -

The Core Lifestyle strategy is the default investment strategy. It is constructed using a number of the above funds. At any one time, the charges that members pay ranged from 0.425% pa during the accumulation phase to 0.469% pa at retirement. The TERs for the individual investment funds that made up the Core Lifecycle strategy ranged from 0.10% pa to 0.65% pa.

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Other investment funds -

There are other funds that were utilised as default funds in the absence of any member elections during the Q4 2016 investment changes exercises, and a previous mapping exercise in 2015. Where members were subject to this exercise in 2015 and continue to have assets invested in these funds during the statement period, these may be deemed to be "default" funds under the Regulations. These funds have been listed below:

- LGIM Cash Fund
- LGIM Over 15 years Gilt Index Fund
- LGIM 30:70 Global Equity Fund

Given the changes to the Cash Lifecycle in September 2016 which included changes to the underlying funds which make up the strategy, the Cash Lifecycle strategy may also be deemed to be a default fund. The Cash Lifecycle strategy complies with the charge cap with weighted average TER charges ranging from 0.425% pa for funds available in the growth phase to circa 0.117% pa at retirement. The TERs for the individual investment funds that made up the Cash Lifecycle strategy ranged from 0.10% pa to 0.65% pa.

During the statement period:

- The Trustees confirm that the designated default option (the Core Lifecycle), the Cash Lifecycle and any funds that could be deemed to be default funds (due to a previous fund mapping) comply with the Charge Cap requirements (a maximum TER of 0.75% pa).
- The self-select funds have TER charges ranging from 0.10% pa to 1.05% pa.

Legacy external AVC arrangement with Equitable life:

- Over the Scheme year, charges met by members invested in the unit linked funds were 0.5% pa.
- There is no explicit AMC applicable for the With-Profits Fund but there's a 1% AMC inherent within the bonus declaration. In addition the indirect charges and transaction costs during the year were 0.004% and 0.036% respectively.

Transaction costs

The Regulations require the Trustees to calculate the charges and transaction costs borne by members with DC benefits, and to assess the extent to which those charges and costs represent good value for members.

Transaction costs are incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are reflected in the net return credited to members through the unit price for each of the funds. In 2017, the Financial Conduct Authority (FCA) published its policy on how asset managers must disclose transaction costs and administration charges to trustees.

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'£ and pence' illustration

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a "£ and pence" illustration showing the compounded effect of costs and charges.

The Trustees have set out an illustration below which shows the projected value, over different time horizons, of the three funds that make up the current default investment strategy.

	Years to retire	LGIM 30:70 Global Equity Index		Fulcrum Diversified Core Absolute Return		LGIM 0-5 Year Gilt Index Fund	
		Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
Strawman 1 (age 25)	1	£14,300	£14,200	£14,200	£14,100	£13,700	£13,700
	3	£23,300	£23,200	£23,100	£22,700	£21,000	£21,000
	5	£33,200	£32,900	£32,600	£31,900	£28,300	£28,200
	10	£61,700	£60,900	£59,800	£57,400	£46,100	£45,800
	15	£96,800	£95,000	£92,400	£87,100	£63,500	£62,900
	20	£140,000	£136,600	£131,700	£121,800	£80,400	£79,500
	25	£193,200	£187,400	£178,900	£162,100	£96,900	£95,600
	30	£258,800	£249,200	£235,700	£209,100	£113,100	£111,300
	35	£339,500	£324,700	£303,900	£263,800	£128,800	£126,400
	40	£438,900	£416,700	£385,900	£327,600	£144,100	£141,200
Strawman 2 (age 45)	1	£119,600	£119,400	£119,000	£118,300	£114,500	£114,400
	3	£161,200	£160,400	£159,300	£156,700	£143,200	£142,800
	5	£206,500	£204,900	£202,600	£197,500	£171,600	£170,900
	10	£337,600	£332,900	£325,800	£311,100	£241,400	£239,700
	15	£499,100	£488,900	£474,000	£443,400	£309,500	£306,500
	20	£698,000	£679,200	£652,200	£597,600	£375,900	£371,300

Notes:

1. Projected pension account values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Future contributions are assumed to be paid at the rate of 15% of salary, a fully matched rate for an employee joining since 1 January 2019.
3. Investment returns, charges and costs, as a percentage reduction per annum, are assumed to be added or deducted at the end of the year.
4. The starting account size is assumed to be £10,000 for Strawman 1.
5. The starting account size is assumed to be £100,000 for Strawman 2.
6. Inflation is assumed to be 2.5% each year.
7. The nominal (or before inflation) projected growth rates pa for each fund are as follows:
 - LGIM 30:70 Global Equity Index – 4.25%
 - Fulcrum Diversified Core Absolute Return – 3.75%
 - LGIM 0-5 Year Gilt Index Fund – (-0.5)%
8. The nominal projected growth rates are net of transaction costs. Annual management charges are then deducted.
9. The values shown are for illustrative purposes only and are not guaranteed.

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5. Assessment of the value the Scheme provides to members

The Trustees are committed to ensuring that members receive value for money (i.e. that the costs and charges met by members provide good value in relation to the benefits and services provided).

Members meet investment-related charges. Members do not pay for administration, communication or governance costs. These costs are met by the Employer.

In relation to the investment-related charges met by members, these are made up of:

- The Total Expense Ratio (TER) - this is a measure of the total costs associated with managing and operating an investment fund. These costs consist mainly of investment management fees and variable additional expenses such as trading fees, legal and auditor fees, custodian and settlement charges for the investments that the fund holds and other operational expenses. Information about the TERs is set out above and further information is available for members on the Fund Factsheets on ePA, the online administration tool, and from the Scheme's administrators.
- Transaction costs - for example, where members switch investment funds on request or as part of the lifecycle automated switches.

To ensure that the charges members pay are in line with the market, we asked Willis Towers Watson to undertake an assessment of the Plan's value for members. The legal requirement is to assess the value in respect of benefits and services members pay for. However, the Trustees also considered the broader elements of value i.e. those benefits/services paid for by GAM. The assessment concluded that the combined value provided to members by the scheme governance and management, administration, investment and communication services and features is good when compared with the overall level of charges met by members. The Scheme provides high quality services that meet the specific needs of the Scheme membership that have been identified. In particular:

- Although the cost of scheme governance and management is not met by members, and so falls outside of the legal definition, it was concluded that the Trustees' governance and management delivers excellent value.
- Members receiving a comprehensive high-quality administration service with on-line access to pension accounts.
- Well-designed lifestyle default investment strategies and range of self-select options.
- The communication materials issued by the Scheme have been developed specifically for the membership in order to focus on issues of particular interest to them.
- Although the charges paid by members investing in the default Core Lifecycle are higher than for many other schemes, the higher charge is reflective of the Trustees believe that it is worth paying for active management.

6. Maintaining the Trustees' Knowledge and Understanding (TKU)

The Pensions Act 2004 sets 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 pension scheme assets and other matters to enable them to exercise their functions as trustees properly. The comments in this section relate to the Trustees as a body in dealing with the whole Scheme and are not restricted to the DC elements.

**GAM (U.K.) LIMITED PENSION AND LIFE ASSURANCE
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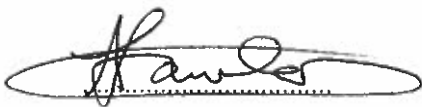
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This requirement is underpinned by guidance in the Pensions Regulator's Code of Practice 13. The Trustees' approach to meeting the TKU requirements encompasses the following aspects:

- Maintaining a rolling programme of bespoke Trustee training which is delivered within meetings where appropriate.
- From time to time, the Trustees undertake specific training meetings, covering key strategic issues as needed.
- Recording all training and attendance at appropriate seminars in the Trustee training log in order to allow an ongoing assessment of Trustee TKU and help identify any gaps for training in future years.
- For each Trustee meeting, the Trustees' advisers will highlight the relevant parts of the Plan Rules, SIP and other Plan documents relevant to the decisions at the meeting.
- At each Trustee meeting, the advisers highlight significant developments in pension law, covering key areas such as pension reform, regulatory developments, new legislation and cases.
- A summary of current issues are also provided by the Trustees' advisers at the appropriate meetings.
- The Trustees have access to all the meeting papers together with the Trust Deed and Rules and various other formal scheme documents, such as the Statement of Investment Principles. This ensures that the Trustees can be conversant with the Plan's documentation.
- The Trustees take advice from their professional advisers.

For the period covered by this statement, the TKU requirements were met through a combination of the above methods. Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

The Chair's Statement regarding DC governance was approved by the Trustees and signed on their behalf by:



Date: 23/10/2019

Anthony Lawler
Chairman of the Trustees - GAM (U.K.) Limited Pension and Life Assurance Scheme