

The Catholic Agency for Overseas Development Retirement and Death Benefits Scheme

Governance Statement from the Chair of Trustees - year end 30 November 2019

1. Purpose

As Trustee of the Catholic Agency for Overseas Development Retirement and Death Benefits Scheme (the "Scheme") we have reviewed and assessed the extent of which our systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator's:

- *Code of practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits.*
- *Regulatory guidance for defined contribution schemes.*

This statement aims to summarise, proportionate to the size of the Scheme, how those requirements are met by the Trustee.

We are committed to adopting the standards of practice set out in the DC code and DC regulatory guidance which we believe will help deliver better outcomes for members at retirement.

2. Type of Pension Scheme

The Catholic Agency for Overseas Development Retirement and Death Benefits Scheme is a defined contribution occupational pension scheme set up under Trust. It was established on 1st December 1987 and is governed by a declaration of trust and rules dated 1st December 1987.

As at the date of this Statement there are 3 active members and 1 deferred member in the Scheme. On retirement members have the option to transfer their fund from the Scheme, to purchase an annuity policy or to take a one-off taxable lump sum (UFPLS). Where an annuity policy is purchased by the Trustee, this is done in the name of the Member.

3. Appointed Advisers

The Scheme is insured with Aviva Life & Pensions Limited ("The insurer" & "Aviva"). The policy commenced with Friends Provident and was transferred to Aviva after the acquisition of Friends Provident by Aviva.

The insurer invests the Scheme assets for each member in a range of funds as detailed on the following page.

The insurer undertakes the day to day administration of the Scheme for the Trustee.

During 2018, the Trustee appointed Broadstone to undertake a review of the Aviva Life Policy, its charges and investments. The Trustee was comfortable with the auditors in place and will review this position in 2021.

4. Scheme assets and investments

As at November 2019, the assets of the Scheme were invested in the following funds:

Investment Funds	Annual Management Charge (AMC)	Additional Expense	Fund Identifier Sedol code	Performance to 30 November 2019 - growth over the period (not annualised)		
				1 year	3 year	5 year
Aviva Pension Cash FPP	0.75%	0.02%	0353373	-0.1%	-0.8%	-1.5%
Aviva Pension Fixed Interest FPP *	0.75%	0.02%	0353414	8.0%	10.6%	24.4%
Aviva Pension Global Equity FPP	0.75%	0.04%	0353265	13.4%	42.2%	81.6%
Aviva Pension Index Linked FPP	0.75%	0.02%	0353436	9.0%	10.6%	31.6%
Aviva Pension Managed FPP	0.75%	0.03%	0353458	8.5%	17.3%	27.4%
Aviva Pension North American FPP	0.75%	0.03%	0353652	11.5%	41.9%	88.4%
Aviva Pension Pacific Basin FPP	0.75%	0.07%	0353674	8.2%	30.6%	65.5%
Aviva Pension Property FPP	0.75%	0.00%	0353287	2.4%	12.5%	26.5%
Aviva Pension Stewardship FPP	0.75%	0.02%	00353544	15.0%	33.3%	38.2%
Aviva Pension Stewardship Managed FPP	0.75%	0.05%	0444017	15.8%	35.0%	62.1%
Aviva Pension UK Equity FPP	0.75%	0.02%	0353395	10.4%	26.2%	33.8%

*Performance figures are to 31 October 2019

Details about these funds can be found on Aviva's website at the following web address or alternatively can be requested from the Trustee

[https://www.fundslibrary.co.uk/FundsLibrary.BranDEDTools/AvivaConsumer/FundCentral#Price%3APension.AvivaConsumer%3Aex-Friends%20Provident%20\(other%20pension%20products\)](https://www.fundslibrary.co.uk/FundsLibrary.BranDEDTools/AvivaConsumer/FundCentral#Price%3APension.AvivaConsumer%3Aex-Friends%20Provident%20(other%20pension%20products))

4.1 Lifestyle Investing

The Scheme does not operate a lifestyle matrix.

4.2 Default investment strategy

The Scheme is not a qualifying scheme for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 as it is not used for auto-enrolment purposes. As such there is no "default arrangement" (as defined in those Regulations).

All members are invested in line with historic advice and recommendations made by their own IFAs. Members are encouraged to consider their own pension needs and to invest accordingly.

Further to the investment review completed in 2018-19, the Trustee determined not to put in place a formal default arrangement because it would not be used by the members and doing so would be disproportionate to the size of the Scheme.

Neither the policy with Aviva nor any of the investment funds have Guaranteed Annuity Rates (GAR). Therefore pensions on retirement, should the member elect to purchase an annuity, will be dependent on market terms on offer.

4.3 Impact of charges

The following table shows illustrations of the potential impact over time of the costs and charges borne by members on projected values of a DC pot at retirement. The DC pots are expressed in today's money to take into account the effects of future inflation. The table represents a starting DC pot of £50,000. Each member's pot size is different.

The figures are illustrations only and have been produced on a proportionate basis having regard to data protection requirements. Actual future values of DC pots will depend on actual future investment returns and charges, the time period considered and the amounts invested.

The assumptions used in the illustrations are:

- *For active members – contributions of £1,000 per annum, increasing at 2.5% each year, are paid and invested monthly. For deferred members – no allowance for any new monies being paid into the pot.*
- *The illustrations below take into account future inflation which is assumed to be 2.5% per annum over the future period, so the numbers are expressed in current day terms.*
- *A total annual management charge of 0.77% per annum is assumed for each of the projections.*
- *Assumed average future growth of 5.5% per annum gross for the stewardship fund and the equity fund and 1.5% per annum gross for the cash fund.*
- *No allowance for any Market Value adjustment for encashment of the With Profit fund units prior to maturity, or any allowance for any terminal or other bonuses.*
- *No allowance for bid / offer spread on the unit prices or switching costs as it is assumed there will be no more than 2 switches in a year.*

Deferred members – Stewardship Fund – no new monies		
End of Year	Fund value before costs and charges in today's terms	Fund value after costs and charges in today's terms
1	£51,463	£51,088
2	£52,970	£52,199
5	£57,758	£55,681
10	£66,720	£62,007

Active members – annual contributions £1,000				
End Year	Equity Fund		Cash Fund	
	Fund value before costs and charges in today's terms	Fund value after costs and charges in today's terms	Fund value before costs and charges in today's terms	Fund value after costs and charges in today's terms
1	£52,466	£52,086	£50,495	£50,116
2	£55,004	£54,218	£50,985	£50,230
5	£63,072	£60,896	£52,428	£50,559
10	£78,173	£73,031	£54,739	£51,072

5. Statement of Investment Principles

As the Scheme has fewer than 100 members, a Statement of Investment Principles (prepared in accordance with regulations 2A of the Occupational Pension Schemes (Investment) Regulations 2005) is not required.

6. Investment Review

The Trustee recognises a number of risks for the members and the main ones are:

- **Inflation risk** – the risk that the purchasing power of their investment account is not maintained.
- **Pension purchase risk** – the risk that the value of pension benefits that can be purchased by a given defined contribution amount is not maintained.
- **Capital risk** – the risk that the value of the element to provide a tax-free cash sum is not maintained.
- **Communication risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made.
- **Inappropriate member decisions** – the risk that members make inappropriate decisions regarding their investments.

Other risks, in addition to the above, include mismatching risk, manager risk, liquidity risk and concentration risk.

The varying nature of the risks faced by a defined contribution investor through time means that no single investment product will adequately meet the needs of the investor throughout the investing period.

The last investment review was completed in 2018-19. An outline of the process taken is given below. On balance the Trustee and Employer determined to make no changes to the Scheme, the Trustees did provide more information to the members on the funds available to them.

During 2018 the Trustee took investment advice from Broadstone on the suitability of the Aviva policy including consideration of the investment funds and options available to members, value for money and the membership profile. The recommendation from Broadstone was that the Aviva Scheme should be replaced but consideration should first be given to the close proximity of all members to retirement age. The recommendation was based largely on the fact that more

modern insured policies could offer reduced annual management charges that would be in the range 0.2%-0.4% per annum in place of the 0.75% AMC that is currently in place.

In July 2018 the Trustee and Employer wrote to all 4 members to seek their views on the Scheme, their plans, and if they planned to stay in the Scheme until they retire. It was clear from the responses that all members had their own financial adviser that they actively engaged with and wanted to stay in the Scheme until they retire. The Trustee also noted that most of the members had recently updated their fund choices and had introduced more diversification to their unit holdings.

After consultation with the Employer, and a further discussion with Broadstone, the decision was made to retain the current policy in its current format. The Trustee recognised that the costs and effort involved for all parties in making changes to this Scheme would likely outweigh any benefits from potentially reduced investment charges. Members are reminded that they should review their investments regularly and that they can opt to transfer out of the Scheme (with contributions for the active members being diverted elsewhere).

7. Charges and transaction costs and allocations

The Trustee understands the importance of the charges and transaction costs applicable. The charges are as follows:

Type of charge	Fund	Charge per annum	How deducted
Annual Management Charge (AMC)	All investment funds	0.75%	Reflected in the unit price.
Additional Expenses on each investment fund	Various investment funds	Varies 0.00% - 0.07% (See table in section 4)	Reflected in the unit price. This is charged by some fund managers to cover expenses like audit costs, Trustee costs and valuer costs. This charge is in addition to the AMC.
Bid/offer spread	Investment pricing	Charge only on encashment of units of 5%	There is a 5% bid/offer spread on the unit prices. This is the difference between the buying and selling price of the units. This is partially/fully offset by the initial allocation of new monthly contributions that since 2014 are credited at 105.26%.
Charge for early encashment of units.	Market Value Reduction	Not applicable	Apart from the bid/offer spread, there are no additional charges for encashment of units.
Policy fee	Policy Charge by Aviva	Not applicable	There is no annual policy fee in addition to the AMC.
Trustee charges Auditor charges Other running costs	Not applicable	Nil	These are paid for by the Employer. No charge to the member.

In accordance with regulation 25(1)(a) of the Administration Regulations, the Trustee has calculated the "charges" and, so far as it was able to do so, the "transaction costs" borne by members of the Scheme for the Scheme Year. Members are able to view the charges applying to the above funds on the available fund factsheets.

Transaction costs are those incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the unit price for each of the funds. The Trustee is aware that the Financial Conduct Authority (FCA) has now published its final policy statement on transaction costs which, effective from 3 January 2018, introduced an obligation on asset managers to disclose transaction costs to Trustee Boards as well as a prescribed methodology under which asset managers should do so.

Allocations – enhancement

New contributions into the Scheme are enhanced on investment.

Prior to 5 August 2014 the allocation of contributions ranged from 92% to 102%.

From 5 August 2014 all regular contributions were and are allocated at 105.26% of their value. This in effect offsets the bid/offer spread on sale.

8. Value for Money

The Trustee is required to assess the extent to which the (ongoing) charges and transaction costs represent good value for members. The Trustee understands the importance of ensuring that the service levels, charges and transaction costs represent good value for members.

Whilst the charges are higher than those that can be obtained from other pension products, the Trustee is mindful to take into account members' views and the wider circumstances of the Scheme.

All members are over age 60 and take regular financial advice and the members have all indicated a preference to remain in this Scheme until they retire, at which time their financial advisers can determine the best pension product to transfer the funds to that will meet the member's needs in retirement.

Whilst Aviva only offer a limited number of funds to invest in, there is sufficient choice of funds to obtain a diversification of investments across a good number of asset classes.

Should the Trustee change insurer, it would involve members discussing this with their financial adviser, which is highly likely to cost them money. In addition, any charges incurred by the members' funds as part of any changes may not be recovered before the members retire.

On balance the Trustee is of the view that the costs and effort involved for all parties in making changes to this Scheme would outweigh any benefits from potentially reduced investment charges. Members are reminded that they should review their investments regularly and that they can opt to transfer out of the Scheme (with contributions for the active members being diverted elsewhere).

9. Administration, including processing of financial transactions

The Trustee understands the importance of being able to effectively monitor core financial transactions of the Scheme, including investment of contributions, transfers into and out of the Scheme, payments out of the Scheme and investment switches as well as the administration service and in particular, that agreed service levels are being met.

The processing of core financial transactions is regularly monitored by our administrators, Aviva, who have internal control procedures that help ensure that core financial transactions are processed promptly and accurately. This includes controls and procedures to manage the receipt and timely investment of contributions, the accuracy of investment allocations and the payment of benefits to members.

For active members, the administrators provide monthly acknowledgement of receipt and applications of funds. Contributions paid into the Scheme in the last Scheme year were received from the Employer within

the statutory deadlines and invested promptly by the insurer. For active and deferred members, the administrators provide annual Scheme statements.

The administrator's processes are reviewed annually as part of the audit of the financial statements.

The Trustee monitors service standards of the Insurer on an ongoing basis. Over the year covered by this statement the Trustee has not had any concerns about the service levels. The contract with the Insurer is tied in with the Scheme's investments and so any changes would need to be considered alongside the investments. As noted in section 6, the Trustee is content with the Aviva policy for the time being, particularly noting the size and maturity of the Scheme.

10. General

As part of its oversight and effective running of the Scheme, the Trustee typically meets at least once a year. The Trustee governs the Scheme using regular meetings and correspondence with the Employer, preparing and maintaining recommended governance documentation. Most member communications are prepared by Aviva. The Trustee and Employer consider annually whether there is any further information which should be provided to members.

11. Trustee knowledge and understanding

The Trustee is required to have appropriate levels of trustee knowledge and understanding. This is achieved in a number of ways including:

- The appointment of an independent professional trustee.
- Appropriate training undertaken at or outside of regular Trustee meetings.
- Experience gained from managing other occupational pension schemes

As Sole Independent Trustee, staff on the trustee team are required to complete continual professional development (CPD) of at least 25 hours a year, of which only 10 hours can be reading. Training throughout the year included attending internal and external seminars, training sessions, webinars hosted by various pension services providers and industry bodies and reading material. Training is logged and reviewed annually. In addition, the various pension professional bodies, like the Pensions Management Institute and Institute and Faculty of Actuaries, have their own CPD requirements that relevant staff adhere to. These CPD requirements were achieved during the year to 30 November 2019.

The Trustee ensures that all members of the trustee team have knowledge of the Scheme's governing documents. The Trustee is supported by the Scheme's advisers and professionally qualified staff of CAFOD who have been involved in the Scheme for a number of years.

Signed by the Chair of Trustee of the Scheme



Signed in the name and on behalf of Fairfield Pension Trustees Limited by SARAH MARSHALL attorney, appointed for the purpose by the board of directors of Fairfield Pension Trustees Limited under a power of attorney dated 7 DEC 2019

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For Fairfield Pension Trustees Limited as Chair of Trustee of the Catholic Agency for Overseas Development Retirement and Death Benefits Scheme

Date 30 JUNE 2020