

The Catholic Agency for Overseas Development Number Two Retirement 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 Number Two Retirement Benefits Scheme (the "Scheme") we have reviewed and assessed the extent to 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 and*
- *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 Number Two Retirement Benefits Scheme is a defined contribution occupational pension scheme set up under Trust. It was established on 1st July 1986 and is governed by a declaration of trust and rules dated 1st July 1986 as updated by a deed of amendment and rules dated 18 June 2013.

As at the date of this Statement there is 1 active member 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 either a one-off taxable lump sum (UFPLS) or a series of lump sums. Where an annuity policy is purchased by the Trustee this is in the name of the Member.

3. Appointed Advisers

The Scheme is insured with Phoenix Life "The insurer". The policy commenced with Scottish Mutual Assurance Limited, and on 6 February 2009 was transferred into Phoenix Life Limited.

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 Phoenix Life Policy, its charges and investments.

The Trustee was comfortable with the auditor 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)	Fund Identifier Sedol code	Performance to 31 December 2019 - growth over the period (not annualised)		
			1 year	3 year	5 year
Phoenix Life SM Cash	1.00%	0785233	0%	0%	0%
Phoenix Life SM UK Equity Tracker	0.98%	0036492	17.79%	18.86%	36.92%
Phoenix Life SM Far Eastern	1.01%	0788890	18.05%	36.93%	63.39%
Phoenix Life SM Gilts & Fixed Interest	1.03%	0784650	5.54%	6.35%	14.57%
Phoenix Life SM North American	0.97%	0785471	26.32%	37.01%	82.53%
Phoenix Life SM Managed Pen (0-35% shares)	1.04%	0785578	9.69%	10.91%	21.40%
Phoenix Life SM Newton Managed	1.71%	0127288	17.55%	19.05%	36.08%
Phoenix Life SM Fidelity Managed	2.30%	0126252	13.81%	11.57%	28.07%
Phoenix Life SM With Profit – Series 1	1.00%		See section 4.2 below		

In addition, members have the option to invest in the following funds within the Phoenix life policy. All these funds have an annual management charge of between 0.94% and 1.05% a year except the Invesco Fund that has an AMC of 1.83%

- Phoenix Life SM European
- Phoenix Life SM Growth
- Phoenix Life SM International
- Phoenix Life SM Japanese
- Phoenix Life SM Long Gilts
- Phoenix Life SM Opportunity
- Phoenix Life SM UK Equity
- Phoenix Life SM Invesco Perpetual Managed

Details about these funds can be found within the Customer Care section on Phoenix's website www.phoenixlife.co.uk or alternatively can be requested from the Trustee.

There are occasional instances where there is a credit to a member's fund on retirement, death, early surrender or transfer, as set out below.

Addition to fund	Amount	Description
Loyalty Bonus	Variable	The is not a bonus as such, but it is the calculation done at settlement to determine how much, if any, of the charges taken since 1 January 2018 have exceeded the 1% per annum cap. There will be no addition to the fund where the overall charges do not exceed 1% per annum.

4.1 Lifestyle Investing

The Scheme does not operate a lifestyle matrix and Phoenix Life does not offer the option within the policy of automatically switching assets into different funds as a member approaches retirement.

4.2 Historic default investment strategy - With Profit Fund

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).

Whilst there have not been any new members to the Scheme for many years, the historic default investment strategy was to invest contributions into the With Profit Fund.

The deferred member has invested their contributions in the (Unitised) With Profit Fund and there are various levels of bonus awarded / reductions applied on these investments as follows:

Type of bonus	Rate	Description
Annual Bonus	4% a year	The annual bonus applicable to the units in the With Profit Fund is 4% before the 1% annual management charge. This bonus will be reviewed by Phoenix from time to time and the rate may change. The bonus will not be less than 4%. The bonus rate for the past 10 years has been 4% a year.
Terminal Bonus	Variable	A terminal bonus (also known as Final Bonus) may be payable when units in a With Profit fund are surrendered. Whether or not a bonus is paid depends primarily on the length of time the units have been held in that fund. Phoenix will review rates regularly and these are not guaranteed. They may change at any time.
Special Bonus	Variable	A special bonus is applicable to policies invested in the with profit fund prior to 1992. The full bonus is paid at the selected retirement date or on earlier death. A reduced bonus is paid on early surrender or transfer.
Market Value Reduction	Variable	A Market Value reduction (MVR) may be applied when units invested in the With Profit fund are surrendered other than at the selected retirement date or on death. An MVR ensures that the surrender value is not unfairly higher than the underlying value of the With Profit Fund assets, and that the interests of remaining policy holders are protected.

		MVR rates are reviewed regularly but may change at any time.
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As at 31 December 2019 the With Profit fund (with guaranteed minimum bonus rate) was invested in:

- 24% Company Shares (Equities)
- 4% Property
- 2% Other growth assets
- 68% Fixed Interest stocks and corporate bonds
- 2% Cash

Neither the policy with Phoenix Life 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.

These are only illustrations 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 £2,000 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.*
- *An annual management charge of 1.0% per annum is assumed on the with-profit and cash funds and 1.7% pa on the Newton managed fund.*
- *Assumed average future growth of 4.0% per annum gross for the with profit fund and Newton managed fund and 0% 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.*

Deferred members – With Profit Fund – no new monies		
End Year	Fund value before costs and charges in today's terms	Fund value after costs and charges in today's terms
1	£50,732	£50,244
2	£51,474	£50,489
5	£53,767	£51,231
10	£57,818	£52,493

Active members – annual contributions £2,000				
End Year	Newton Managed 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	£52,722	£51,876	£50,732	£50,234
2	£55,484	£53,749	£51,446	£50,460
5	£64,014	£59,344	£53,484	£51,093
10	£79,084	£68,597	£56,564	£52,013

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.

During 2018 the Trustee took investment advice from Broadstone on the suitability of the Phoenix Life policy in the current environment including consideration of the investment funds and options available to members, value for money and the membership profile. Their recommendation, on balance, was to retain members' participation with Phoenix Life, certainly until the member with the largest fund retired.

In addition, in July 2018, the Trustee wrote to members to seek their level of understanding on the investment choices offered, level of charges and other questions. The responses from this exercise confirmed that both members wished to remain in the Scheme until retirement.

The Trustee is mindful that all members have their own appointed independent financial advisers, and information about their client and the Scheme benefits had been provided to them within the last 18 months. The membership is also mature with both members reaching retirement age in the next few years.

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	Refer to table in section 4	Reflected in the unit price.
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 offset by the initial allocation of new contributions that are credited at 103% of their value on initial investment, and the investment return achieved on the additional 3%.
Market Value Reduction	Market Value adjustment applied to units in the With Profit Fund when realised.	Varies	A Market Value Reduction may be applied by Phoenix Life when units in the With Profit Fund are surrendered other than at the selected retirement date or on death. An MVR ensures that the surrender value is not unfairly higher than the underlying assets, and that the interests of remaining policyholders are protected. MVR rates are reviewed by Phoenix regularly but

			may change at any time. The MVR rates are not published.
Trustee charges Auditor charges Other running costs	Not applicable	Nil	These are paid for by the Principal 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. The Trustee has corresponded with Phoenix Life to clarify the various costs.

Allocations – enhancement

New contributions into the Scheme are enhanced on investment. From 2017 all regular contributions were and are allocated at 103% 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.

During 2018 the Trustee took advice on value for money from Broadstone. Whilst the charges are higher than those that can be obtained from other pension products but the costs of changing products might not be recouped before the members reach retirement. The Trustee is mindful that a portion of the assets are invested in the with profit fund, and to realise these funds before the member's normal retirement date may incur a market value adjustment to the with profit funds, that would reduce the funds in value. The with profits fund also provides a guaranteed annual return of 4% pa (before charges) and may provide a terminal bonus. The member with unit linked funds took independent investment advice prior to selecting the chosen funds. Both members are approaching retirement over the next few years.

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 member 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, Phoenix Life Ltd, 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 the active member, 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 Principal Employer within the statutory deadlines and invested promptly by the insurer. For active and deferred members, the administrators provide annual plan 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 above, the Trustee is content with the Phoenix 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 also has ongoing correspondence with the employer and prepares and maintains recommended governance documentation. Most member communications are prepared by Phoenix Life. The Trustee and CAFOD 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, and 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 of Actuaries, have their own CPD requirements that relevant staff adhere to. These CPD requirements were achieved during the year under review.

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

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

Date 30 JUNE 2020