

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 JANUARY 2019 – 31 DECEMBER 2019

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the Continental Teves UK Employee Benefits Scheme ("the Scheme") is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (i.e. Defined Contribution schemes – DC).

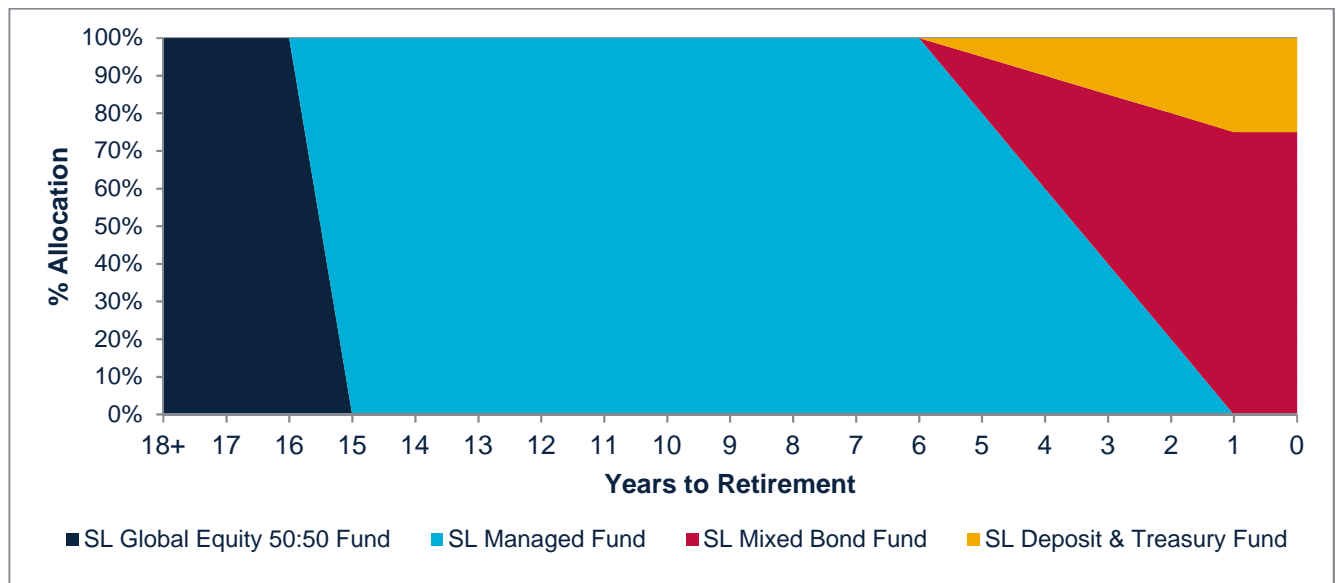
Default arrangement

Members of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement chosen by the Trustees with the advice of their Investment Consultant.

The Trustees have implemented a lifestyle strategy as the Scheme's default investment option. This exposes members to more growth opportunities when they are further from retirement before reducing risk as members approach retirement. The strategy uses funds managed by Standard Life Investments.

When members are more than 16 years from retirement, their savings are fully invested in the Standard Life Global Equity 50:50 Fund, which itself invests in around 50% of assets into UK equities and the other 50% into overseas equities. When members are 16 years from retirement, assets are entirely switched over the course of one year into the Standard Life Managed Fund. This is a multi-asset fund that invests around 70% of assets in equities and the remaining 30% into lower risk assets such as bonds. Assets remain invested in this fund until members are 6 years from their selected retirement age. At this point, assets are gradually moved into the Standard Life Mixed Bond Fund and the Standard Life Deposit and Treasury Fund. These lower risk investments reduce volatility at a time when large decreases in the value of assets could have a detrimental impact on a member's retirement income. The strategy is also designed to track the prices of annuities in order to protect members against interest rate risk.

This strategy can be illustrated using the following graph:



The default arrangement is described in further detail in the Scheme's Statement of Investment Principles (SIP) which was last updated by the Trustees in September 2019 and a copy of which is submitted alongside this governance statement.

Reviewing the default arrangement

In 2019 the Trustees, assisted by their adviser JLT Benefit Solutions (now Mercer), conducted a review of the default investment arrangement. This review took into account fund performance and prices, member concerns, Environmental, Social and Governance ("ESG") factors, and recent changes to the tax and pension rules and regulations. The Trustees were provided with formal advice regarding the default arrangement on 12 July 2019.

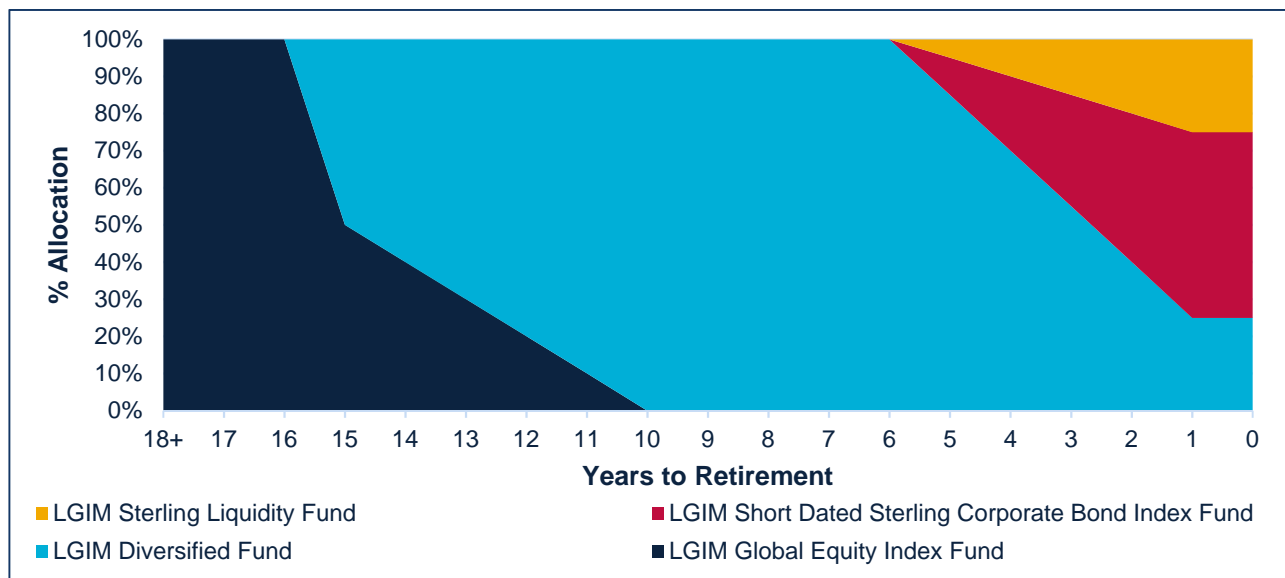
The review concluded that the lifestyle strategy should be altered to better match the options currently available to members at retirement; the proposed strategy would move funds from equities to a diversified growth fund over a five year period instead of one, and target a final split at retirement of 25% cash, 50% bonds, and 25% in the diversified growth fund.

Additionally, the Trustees expressed concern in the component funds in the strategy. The SL Global Equity 50:50 Fund had consistently underperformed its benchmark in recent years; the SL Managed Fund was considered to be an outdated strategy which provides poor diversification compared to other available diversified growth funds; and the SL Mixed Bond Fund was considered more volatile than necessary, with higher pricing than competitive funds in its asset class.

It was therefore recommended to move the Scheme's assets to a new manager with a more competitive fund range. The Trustees agreed that all funds would be replaced with funds provided by Legal & General Investment Management ("LGIM"). LGIM are highly rated by Mercer and the new fund range will offer members a significant saving on their investment fees.

Under the new strategy, members will be invested in the LGIM Global Equity Index Fund until they are 16 years from retirement. This is a passively managed equity fund which offers greater geographical diversification than the current Standard Life Global Equity 50:50 Fund. Assets will then gradually move into the LGIM Diversified Fund so that assets are fully invested in this fund when members are 10 years from retirement. This is multi-asset fund which invests in a variety of assets including equities, bonds, property and cash holdings which offers greater diversification than the current Standard Life Managed Fund. When members reach 6 years from retirement, their savings will gradually move into the LGIM Short Dated Sterling Corporate Bond Index Fund (a bond fund which holds short duration bonds which should prove to be less volatile than the Standard Life Mixed Bond Fund) and the LGIM Sterling Liquidity Fund, a cash fund. When a member reaches retirement their savings will be split between the multi-asset, bond and cash funds at a ratio of 25:50:25, thereby targeting a flexible retirement outcome.

The new default strategy can be illustrated using the following chart:



This change to the lifestyle strategy has been accepted by the Trustees and is in the process of being implemented during 2020.

The Scheme's investment strategy and SIP will be reviewed a minimum of every three years or as soon as any significant developments in investment policy or member demographics take place; as a result the next review will take place in 2022 at the latest.

Fund performance

The Trustees continually monitor the performance of the Scheme's investments throughout the year and receive quarterly performance reports from their investment manager. Overall the Trustees have been satisfied with the performance over the period covered by this statement, but as noted above the Trustees have had concerns around the long-term performance of some of the funds; these concerns were addressed as part of the 2019 investment strategy review.

The performance of the Scheme's investment options over the year and three years to 31 December 2019 are set out below.

Standard Life Fund	Global Equity 50:50 Pension Fund	Managed Fund	UK Mixed Bond Fund	Deposit and Treasury Fund
1 Year Return	21.5%	15.2%	8.2%	0.6%
3 Year Return (p.a.)	6.5%	6.2%	3.5%	0.3%

Source: Standard Life. Returns are stated net of fees.

The Trustees have set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds online and notify members about this in their annual benefit statements.

Processing Scheme transactions

The Trustees have a specific duty to ensure that core financial transactions relating to the DC section are processed promptly and accurately. These include the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members.

These transactions are undertaken on the Trustees' behalf by the Scheme administrator, JLT Benefits Solutions, and its investment manager Standard Life plc. The Trustees periodically review the processes and controls implemented by those organisations, and consider them to be suitably designed to achieve these objectives. The Trustees have a service level agreement (SLA) in place with the Scheme administrator which covers the accuracy and timeliness of all core transactions and receive regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include dynamics checklists, a central financial control team separate to the admin team, daily monitoring of bank accounts, a dedicated contribution processing team, and four eyes checking of investment and banking transactions. During the period covered by this statement, 97% of work was completed within the agreed service levels. There was one complaint during the year, resulting from a member having an incorrect fund value quoted. The matter was corrected and resolved; otherwise there were no issues relating to the processing of Scheme transactions. We continue to monitor performance against the SLA on a regular basis and receive an annual Assurance Report on Internal Controls (AAF 01/06) from JLT.

We will also perform periodic assessments of methods and efficiency of the Scheme's administrators and will challenge them in terms of efficiency when necessary.

In light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

Charges and transaction costs

The law requires the Trustees to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report.

Details of the Total Expense Ratios (TERs; the total annual cost of the fund to the member) payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)
Standard Life Global Equity 50:50 Pension Fund	0.511	0.199
Standard Life Managed Pension Fund	0.525	0.157
Standard Life UK Mixed Bond Pension Fund	0.312	0.123
Standard Life Deposit and Treasury Pension Fund	0.159	0.100

Source: Standard Life, as at 31 December 2019

This is lower than the maximum TER allowed of 0.75% for default arrangements.

The above funds are also made available to members as self-select funds.

Overall the Trustees are comfortable that the costs for the default arrangement and self-select funds are not unreasonable. However, when the Trustees reviewed the Scheme's investment strategy they acknowledged that better value alternatives were available and as a result have arranged for the Scheme to move to a new provider, LGIM. The new arrangement will involve negotiated prices which will be disclosed in this Statement next year.

Cumulative effect of charges

Using the charges and transaction cost data provided by the relevant parties and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot. The statutory guidance has been considered when providing these examples.

In order to represent the range of funds available to members we are required to show the effect on a member's savings of investment in a selection of funds available to members. The funds we are required to illustrate are:

- The fund or strategy with the most members invested
- The most expensive fund
- The least expensive fund
- The fund with the highest expected return
- The fund with the lowest expected return

The illustrations that follow take into account the following elements:

- Initial savings pot size;
- Contributions;
- Real terms investment return, gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical active member's pension pot, we have provided examples below. The illustrations account for all estimated member costs, including the TER, transaction costs and inflation.

Illustrations for an "Average" member						
	Default Strategy <i>(the most popular option)</i>		Standard Life Global Equity 50:50 Pension Fund <i>(most expensive and highest expected return fund)</i>		Standard Life Deposit and Treasury Pension Fund <i>(cheapest and lowest expected return fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£54,526	£54,170	£55,270	£54,891	£52,611	£52,474
3	£64,370	£63,182	£66,904	£65,610	£58,149	£57,722
5	£74,758	£72,570	£79,532	£77,085	£63,577	£62,838
7	£85,723	£82,348	£93,238	£89,370	£68,897	£67,827
10	£99,648	£94,623	£116,022	£109,443	£76,679	£75,077
13 (retirement)	£108,794	£102,618	£141,785	£131,677	£84,230	£82,057
Illustrations for a "Young" member						
	Default Strategy		Standard Life Global Equity 50:50 Pension Fund		Standard Life Deposit and Treasury Pension Fund	

			<i>(most expensive and highest expected return fund)</i>		<i>(cheapest and lowest expected return fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£58,243	£57,845	£58,243	£57,845	£55,419	£55,275
3	£68,759	£67,413	£68,759	£67,413	£59,594	£59,150
5	£80,172	£77,656	£80,172	£77,656	£63,685	£62,929
10	£113,151	£106,540	£113,151	£106,540	£73,562	£71,967
15	£151,510	£138,898	£153,626	£140,793	£82,955	£80,451
20	£187,617	£167,778	£203,302	£181,412	£91,888	£88,415
25	£227,515	£198,633	£264,268	£229,583	£100,383	£95,891
30 (retirement)	£244,179	£210,261	£339,091	£286,707	£108,462	£102,909

It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the “Average” and “Younger” members’ pots at retirement would be £72,693 and £80,988 respectively in today’s money.

Assumptions

The above illustrations have been produced for an “average” member and a “young” member of the Scheme based on the Scheme’s membership data as at 31 December 2019. The “Default Strategy” illustration assumes the member’s asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member’s assets are invested in that fund up to the Scheme retirement age. The results are presented in real terms, i.e. in today’s money, to help members have a better understanding of what their pension pot could buy in today’s terms, should they invest in the funds above as shown.

Notes

- Values shown are estimates at end of each year and are not guaranteed.
- The ‘Average’ member is assumed to be 52 (the average of the Scheme’s membership), with a current salary of £27,700 (based on the median salary of the Scheme’s membership) with a current pot size of £49,800 (based on the median pot size of the Scheme’s membership). The member is assumed to contribute 4% of their salary to the Scheme, and the employer is assumed to contribute 8% of the member’s salary to the Scheme. The member is assumed to retire at 65, and the member’s salary is assumed to increase yearly in line with inflation.
- The ‘Youngest’ member is assumed to be 35 (the age of the Scheme’s youngest member), with a current salary of £22,200 (based on the median salary of the youngest 20% of the Scheme’s membership) with a current pot size of £53,300 (based on the median pot size of the youngest 20% of the Scheme’s membership). The member is assumed to contribute 4% of their salary to the Scheme, and the employer is assumed to contribute 8% of the member’s salary to the Scheme. The member is assumed to retire at 65, and the member’s salary is assumed to increase yearly in line with inflation.
- Charges assumed for each individual fund are as provided by Standard Life as at 31 December 2019, shown earlier in this Statement.
- From Standard Life’s figures, the default strategy has an assumed TER of 0.51% p.a. further than 16 years from retirement, rising to 0.53% p.a. from 15 years from retirement to 6 years from retirement, falling to 0.27 p.a. before inflation for members less than 1 year from retirement.
- The Regulations require that, where possible, the transaction costs used in these illustrations are based on an average of those for the five years to Scheme Year End. Standard Life have been unable to provide historic transaction costs for these funds; consequently, the assumed transaction costs used in this illustration are based on an average of those provided for the two years to 31 March 2020, and are as follows:

SL Global Equity 50:50 Pension Fund	0.174%
SL Managed Pension Fund	0.129%
SL Mixed Bond Pension Fund	0.107%
SL Deposit and Treasury Pension Fund	0.102%

- Inflation is assumed to be 2.5% per annum.
- The projected gross growth rates for each fund are based on SMPI assumptions provided by Mercer, and are as follows:

SL Global Equity 50:50 Pension Fund	4.0% p.a. above inflation
SL Managed Pension Fund	2.6% p.a. above inflation
SL Mixed Bond Pension Fund	0.4% p.a. below inflation
SL Deposit and Treasury Pension Fund	1.1% p.a. below inflation

Value for Members

Albeit no formal value for members assessment has been carried out over the reporting period, the Trustees have a good understanding of the membership demographics of the Scheme and as such have a view as to what good member outcomes should look like for the Scheme's members in aggregate. We understand that value for members does not necessarily mean selecting the cheapest offer and in our ongoing reviews of value for members we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds.

Value for members was at the heart of the investment strategy review that was carried out over the course of the year. The new proposed strategy (outlined earlier in this statement) offers a significant fee saving compared to the existing strategy and the Trustees therefore feel the new strategy represents better value for members. The Trustees plan to carry out a formal value for members assessment of the Scheme in 2020.

The Trustees have set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds online and notify members about this in their annual benefit statements.

Trustees' knowledge and understanding

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 Codes of Practice 07 and 13.

The Trustees have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up-to-date with relevant developments.

The Trustees include legislative updates and Trustee Knowledge and Understanding on the agenda for each of our meetings, and our consultants highlight any agenda items which could be considered as Trustees training. One Trustee meeting was held over the course of 2019, in which the Trustees reviewed the scheme's Internal Disputes Resolution Policy and went through Mercer's current pension issues report. In addition, the Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

Full details of the Pension Regulator's Trustee Toolkit is provided to new Trustees after taking up office. All the Trustees are also required to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles. During the year, the Trustees have demonstrated a working knowledge of the trust deed & rules by dealing with various member cases where consideration of the rules has been a factor.

The Trustees' risk register, business plan and Integrated Risk Management policy are standing items on each meeting agenda and are updated as required. The Trustees are therefore satisfied that they have demonstrated a working knowledge of documents setting out the Trustees' current policies.

The Trustees' investment consultant led them through in depth discussions on CMA guidance and the new requirements for the Statement of Investment Principles (SIP). The SIP was updated for these regulations in September 2019 and was considered during the review of the Scheme's default investment strategy. The Trustees therefore believe they have demonstrated a working knowledge of the SIP over the period covered by this statement.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustees consider that we are enabled properly to exercise our functions as Trustees of the Scheme.

In addition, while most schemes simply focus on trustee training and use of advisers, we believe that knowledge and understanding should also be extended to awareness of member demographics and member behaviour otherwise trustees cannot be certain that a scheme remains fit for purpose.

Given the extent of the training above, the Trustees are comfortable that we have demonstrated sufficient knowledge of the law relating to pension schemes and trusts and the principles relating to the funding and investment of pension schemes. I am also satisfied that the Trustees have demonstrated a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out the Trustees' current policies.

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

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line that extends to the right and then curves back down.

Mr T Whyatt MBE

Chair of the Trustees

Date: 20 August 2020