

Fujifilm Speciality Ink Systems Limited UK Pension Plan (“the Plan”) Chair’s Statement of DC Governance for the period from 1 January 2019 to 31 December 2019

This statement has been prepared by the Trustee of the Fujifilm Speciality Ink Systems Limited UK Pension Plan (‘the Plan’) to demonstrate how the Plan has complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (‘the Regulations’). It covers the period 1 January 2019 to 31 December 2019.

The statement covers the following:

1. The Plan’s DC investment strategy (including the default investment strategy);
2. The processing of core financial transactions;
3. Charges and transaction costs;
4. Assessment of the Plan’s ‘value for members’;
5. Maintaining the Trustee’s knowledge and understanding.

1. The Plan’s DC investment strategy

The Statement of Investment Principles (SIP)

The SIP sets out the aims and objectives of the Plan’s investment strategy. In particular it covers the Trustee’s investment policy for the DC assets, including objectives, risk and expected return and the design of the default investment strategy. A copy of the latest agreed DC Section SIP dated September 2019 is attached as an appendix to this statement and appended to the Plan’s Annual Report and Accounts.

The default investment strategy

The Trustee offers a default investment strategy (“the Plan default”) for DC and AVC members who do not make a choice about the investment of their funds.

The Plan default is currently the 10 year Annuity Targeting Lifestyle strategy. The 10 year Annuity Targeting Lifestyle strategy aims to provide an appropriate investment strategy up to retirement for an average DC Section member who wishes to use their account at retirement to buy an annuity and to take 25% as tax-free cash. Its objective is to generate capital growth over the long term with increasing levels of retirement income protection and capital protection as members approach retirement.

Under the current default strategy, assets are invested in a passively managed, currency hedged, global equity fund until 10 years before a member’s selected retirement age (SRA), when switching begins into the index-linked gilt and corporate bond funds, and then later into a cash fund. Fund switches happen automatically on a monthly basis. Overall, the funds will gradually move from 100% global equities to 25% cash and 75% bonds at SRA.

| | |
|---|---|
| Asset allocation during accumulation phase | 100% Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index |
| Consolidation phase start date | 10 years before Selected Retirement Age |
| Asset allocation at end of consolidation phase | 37.5% Aviva Pension BlackRock Over 15 year Corporate Bond Index Tracker 37.5% Aviva Pension BlackRock Over 5 year Index-linked Gilt Index Tracker 25% Aviva Pension Cash |

Review of the default strategy

In 2019 the Trustee continued its investment review of the default investment strategy for the DC and AVC membership.

The Plan's current default targets a combination of annuity and cash at retirement. As part of its review, the Trustee analysed membership data, including the membership profile and projected pension pots, retirement choices made since April 2015 across the UK retirement market and within the Plan specifically. The analysis considered separately DC-only members and those who have DB Section benefits too. Based on the analysis undertaken and trends in retirement behaviour, the Trustee concluded that an annuity-targeting lifestyle approach is now unlikely to be appropriate for the Plan's default. Given the mix of members retiring over the next 5 to 10 years, a "universal" lifestyle approach may be more appropriate.

As part of its review, the Trustee also considered factors such as: the effect of transaction costs; whether there may be lower charges in the future; the benefits of including an active investment management overlay and of the enhanced governance applying to Aviva's default, which would be in addition to the Trustee's own governance of the Plan's investments, to support strong returns and/or manage volatility.

Following the review in conjunction with its DC adviser, the Trustee agreed to replace the existing default with Aviva's in-house default investment option, MyFuture, which targets a more flexible retirement outcome. In addition, a reduction in the Annual Management Charges payable by members was negotiated with Aviva by the Trustee. The Company also agreed to pay for some of the transition costs that members may incur when the transition takes place.

The reduction in Annual Management Charges was implemented with effect from 1 May 2020. However, due to the unprecedented volatility in global investment markets as a result of COVID-19, the Trustee decided to postpone the transition to the new default strategy. The transition is now provisionally scheduled to take place in September 2020 subject to appropriate member communications and a review of market conditions and associated risks of a transition.

The Trustee aims to review the default investment strategy at least once every three years.

Self-select investment

The following investment options are also available within the Plan:

- 5 year Cash Targeting Lifestyle strategy, aimed at those members likely to take their retirement savings as cash at retirement (e.g. those members who have legacy DB benefits that provide a guaranteed income).
- 5 year Annuity Targeting Lifestyle strategy – a lifestyle arrangement, closed to new investors, for those wishing to take annuity and cash at retirement, but with a shorter consolidation period.
- 6 self-select funds covering UK and Global equities, diversified assets, bonds and cash.

Further details are included in the DC Section SIP. (Please refer in particular to sections 10 to 16 and appendix 1 of the DC Section SIP dated September 2019.)

Investment performance monitoring

During the period covered by this statement, the Trustee reviewed the performance of the default strategy's underlying funds and the other funds available on a quarterly basis. The majority of the funds are passively managed and over the year performed in line with the indices, as expected. The performance has therefore been consistent with the aims and objectives of the SIP for the period.

2. Processing core financial transactions

The Trustee has a specific duty to ensure that core financial transactions in relation to money purchase benefits are processed promptly and accurately. The Pensions Regulator lists core financial transactions as including:

- Investment of contributions

- Transfer of member assets into and out of the Plan
- Transfers between different investments within the Plan
- Payments to and in respect of members/beneficiaries.

These transactions are undertaken on the Trustee's behalf by the Plan's DC Section and AVC administrator, Aviva.

During the year, the Trustee monitored the processing of core financial transactions of the Plan, through information from Fujifilm's Finance Department and Management Information reporting from Aviva. Aviva has evidenced to the Trustee that for the period 1 January 2019 to 31 December 2019:

- All lifestyle switches were processed promptly and accurately
- All contributions were invested in a timely manner
- Aviva has monitored contribution and policy transactions (including unit allocations) on a monthly basis, with any issues picked up and actioned in a timely manner
- There was one complaint received from a DC Section member regarding the clarity of information received from Aviva. Aviva resolved the complaint and the Trustee was assured that the complaint was not in respect of delays to financial transaction processing. Other than this, no issues were identified.

The Trustee received a detailed stewardship report from Aviva for the reporting year to help monitor and assess the administration. Monitoring of stewardship reports and of online activities helps provide ongoing assurance that the key processes and controls at Aviva are operating effectively. In addition, the Finance Department has prepared additional supporting material setting out key controls and processes.

The Trustee has requested Aviva provide more frequent (six-monthly) stewardship reporting to help with more timely monitoring and better oversight.

The Trustee has requested common and scheme-specific data assessment reports from Aviva to help provide reassurance that data is available and complete to help ensure that the allocation of contributions and payment of benefits are being made accurately, at the right time and to/for the right beneficiaries. The latest attestation from Aviva was received on 10 January 2020 and confirmed that the processes and data validations carried out by Aviva are periodic and robust. The last data assessment reports were received on 9 July 2020 in respect of the reporting year to 31 December 2019 and illustrated that the data was in good order with over 97% of records complete (11 records had addresses and/or postcodes missing).

The Trustee is satisfied that it has met the requirement to ensure that core financial transactions are processed promptly and accurately during the period covered by the statement in relation to the money purchase benefits provided by the Plan, and that there were no issues during the Plan year.

3. Charges and transaction costs

The Regulations require the Trustee to make an assessment of charges and transaction costs borne by members with DC benefits, and the extent to which those charges and costs represent good value for money for members.

Charges

The default investment, the 10 year Annuity Targeting Lifestyle strategy, had a Total Expense Ratio (TER) of between 0.650% to 0.553% pa over the period covered by the Statement.

In respect of the self-select investment options available to members over the period:

- the 5 year Cash Targeting Lifestyle strategy had a Total Expense Ratio (TER) of between 0.650% to 0.525% pa over the period covered by the Statement.
- the legacy 5 year Annuity Targeting Lifestyle strategy had a Total Expense Ratio (TER) of between 0.650% to 0.553% pa over the period covered by the Statement.
- The self-select fund charges for the period covered by the statement are shown below.

| Current funds | Management style | AMC (%) | Other charges (%) | TER (%) |
|---|------------------|---------|-------------------|---------|
| Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index | Passive | 0.50 | 0.150 | 0.650 |
| Aviva Pension BlackRock UK Equity Index Tracker | Passive | 0.50 | 0.238 | 0.738 |
| Aviva Pension LGIM Diversified | Active | 0.62 | -0.039 | 0.581 |
| Aviva Pension BlackRock Over 15 Year Corporate Bond Index Tracker | Passive | 0.50 | 0.088 | 0.588 |
| Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker | Passive | 0.50 | 0.038 | 0.538 |
| Aviva Pension Cash | Active | 0.50 | 0.025 | 0.525 |

The TER provides investors with details of the total annual costs involved in running an investment fund. This includes the annual management charge (AMC), plus other charges incurred in administering the fund (these include share registration fees, legal fees, auditor fees, custodian fees etc). Transaction costs are also included in the other charges figures.

Transaction costs

Aviva has provided details of all transaction costs for the Plan's funds over the statement period (i.e. the costs that have been incurred by the investment managers as a result of buying, selling, lending or borrowing investments). These have been used to determine the TERs shown above.

Aviva has used the "slippage cost" method to calculate the transaction costs except for the Aviva Pension Cash Fund, where a different method has been used. The method may change in future years as the industry works towards using a common standard.

In the Appendix, we have attached Aviva's illustrations of the effect of these charges (in pounds and pence) on an example member's DC pot, by projecting pot sizes with and without charges. They show the compounding effect over time of the charges for an example member paying £100 per month (over differing periods and invested in various Plan funds) and the impact of charges on the member's funds at retirement. For completeness, Aviva has prepared separate illustrations for the DC Section and for AVCs.

4. Assessment of the Plan's 'value for members'

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

Members meet Aviva's administration and investment-related charges:

- The TER is a measure of the total costs associated with managing and operating an investment fund. These costs consist mainly of:
 - Aviva's administration management charge for the Plan and the individual investment management fees for each fund;

- 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; and
- Transaction costs – involved in buying and selling units in an underlying fund and the annual costs incurred by the fund in buying and selling its holdings.

The Trustee has considered the extent to which the costs and charges borne by members of the Plan represent good value for members with reference to regulatory guidance and information provided by Aviva. Our assessment takes account of the following:

- Members have access to institutional-priced investment fund management at charges which are competitive given the relatively small size of DC assets under management.
- The TER for the default strategy funds is well below the charge cap of 0.75% pa.
- Members have access to a variety of investment options which the Trustee regularly monitors and updates and which should meet the membership's different returns/risks and retirement income preferences.
- Members receive a comprehensive and good quality administration service with on-line access.

In May 2020, the Trustee, in conjunction with Willis Towers Watson, carried out an assessment of the value that members receive from the Plan. The assessment considered the period covered by this statement and it also noted that the Trustee has negotiated lower charges from 1 May 2020, which should improve the value for members further in the future.

As a result, the Trustee has concluded that the charges within the Plan compare favourably against those of other similar pension arrangements and provide value for money for members. The Trustee will continue to monitor this.

In addition to the areas identified above:

- Members benefit from a competitive contribution structure.
- Members do not pay for communication or governance costs, trustee adviser costs or scheme management/administration undertaken by Fujifilm. Costs for these services are met by Fujifilm.

5. Maintaining the Trustee's 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 Plan assets and other matters to enable them to exercise their functions as a trustee properly. The comments below relate to the Trustee in dealing with the whole Plan and are not restricted to the DC elements.

In order to be able properly to exercise its functions, the Trustee has ensured that it has a working knowledge of the Plan's trust deed and rules; the Statement of Investment Principles (SIP); and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Plan generally. The Trustee has also ensured it has an appropriate level of knowledge and understanding of matters such as the law relating to pensions and trusts, and the principles relating to investment of pension scheme assets.

During the year covered by the Statement, the Trustee's approach to meeting the TKU requirements included:

- Regular Trustee training on current issues as well as bespoke training specifically for the Fujifilm Plan, which was delivered within consultative meetings with the Trustee's advisers;
- Revisions made to the SIP during the reporting period were overseen by Anna Eagles in conjunction with advice received from the Plan's investment advisers;
- Attendance at pensions-related conferences and seminars to gain a broader understanding of issues that could impact the Plan and its members.
- The Trustee's approach to training and the participation of professional advisers at meetings (for example, the Scheme Actuary and investment adviser attended all Trustee consultative meetings) ensure that the Trustee has appropriate access to advice, knowledge and understanding when making decisions and exercising their functions as a Trustee. Indeed, the Trustee has obtained legal and other professional advice as and when required during the past Plan year to help it undertake its duties properly and appropriately.

All the Trustee Directors at Law Debenture have completed The Pensions Regulator's Trustee Toolkit online training and are members of the Association of Professional Pension Trustees.

- Membership of the APPT was renewed during the Plan year (which required individual submission of appropriate continuous professional development records).
- Since the end of the reporting period all of the Trustee Directors (including Anna Eagles and Andrew Harrison) obtained provisional or full Accreditation as a Professional Pension Trustee, demonstration of their further ongoing commitment to continuous improvement in standards for professional trustees.

All the Trustee Directors undertake continuous professional development (CPD) activity. During the Plan year, this included:

- A programme of external meetings with external advisers, fund managers, investment banks and other industry participants to discuss developments in their respective areas, covering DB and DC matters.
- Bespoke Law Debenture training sessions on particular areas of interest.
- Investment and pensions seminars and conferences including moderating sessions and speaking.
- Schemes' own training sessions.
- Participation within a range of trade associations and professional bodies including the Pensions Management Institute, Institute and Faculty of Actuaries, Pensions and Lifetime Savings Association, Association of Professional Pension Trustees, Society of Pension Professionals and the Pension Fund Investment Forum
- In addition to this CPD activity, Law Debenture has a comprehensive management and reporting structure centred on ongoing staff development, peer input and review.
- Law Debenture's sole trustee governance model combined with its TKU framework is designed to ensure that schemes are run to high standards. A quarterly internal peer review process is operated and documented approval of two Trustee Directors is required for key decisions and signing of scheme documents. Peer reviews follow a set format, which incorporates a review of scheme activity, regulatory requirements and performance against objectives. Plan documents and correspondence are maintained in an accessible folder structure. This framework ensures a working knowledge of the Plan documents and up-to-date knowledge of the Plan.
- During the Plan year, two "Away days" were held, attended by the Trustee Directors, where both business strategy and client case studies were discussed, including DC-specific sessions.

- Law Debenture also obtains annually an AAF Assurance report detailing its control objectives and procedures. This is subject to external audit and demonstrates that The Law Debenture Pension Trust Corporation p.l.c. operates sound internal procedures and controls and is committed to high standards of governance, thereby minimising exposure to risk on the part of the schemes to which it is appointed.

Based on the actions of the Trustee during the statement period, and the professional advice available to it, the Trustee considers itself able to run the Plan properly and effectively and exercise its functions as Trustee.

This Chair's Statement was approved by the Trustee and signed on behalf of Law Debenture by:

Signed on behalf of the Trustee:



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Anna Eagles, Director for The Law Debenture Pension Trust Corporation p.l.c.

On behalf of the Trustee of the Fujifilm Speciality Ink Systems Limited UK Pension Plan

Date: 28 July 2020