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**THE SWISS RE GB PENSION SCHEME**  
**Annual Chair's Statement on the governance of the DC Section**  
**Year ending 31 December 2020**

## **Introduction**

This statement has been prepared by the Trustees of the Swiss Re GB Pension Scheme (“the Scheme”) in accordance with the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how, in relation to the Defined Contribution Section (“the DC Section”) of the Scheme, the Trustees have complied with the statutory governance standards that cover the following key aspects of its operation:

- the default investment strategy
- charges and the extent to which they represent good value to members
- the monitoring of core financial transactions
- how the Trustees ensure they have enough knowledge so that the DC section is well run.

This statement covers the Scheme year from 1 January 2019 to 31 December 2019.

In addition, where relevant, the statement includes information on the legacy Additional Voluntary Contribution plans with Utmost Life and Pensions (previously Equitable Life), Standard Life and Aviva (collectively referred to as “the Legacy AVC Schemes”).

## **The Default Investment Strategy**

### **The DC Section**

Members of the DC Section who do not make an explicit choice on how to invest their pension savings are automatically invested in the default investment strategy. At the start of 2019, the default investment strategy was the Annuity Lifecycle. However, following the conclusion of the three-yearly review of the default investment strategy that started in 2018, it was changed to the Drawdown Lifecycle in April 2019 (see below for more details).

The Trustees prepare and keep under review a Statement of Investment Principles (SIP) that describes their overall investment policy for the DC Section (a separate SIP is prepared that covers the Defined Benefit (DB) Section of the Scheme). The SIP for the DC Section covers such matters as the Trustees’ investment beliefs and objectives, the investment management arrangements, risk controls as well as the selection and monitoring of investment managers. In addition, the SIP sets out the Trustees’ approach to socially responsible investment and the exercising of rights that arise from the DC Section’s investments.

The SIP also includes the aims and objectives for the DC Section’s default investment strategy, the Drawdown Lifecycle, together with the reasons why the Trustees feel it is appropriate for those members who do not actively make their own investment choice. A copy of the most recent SIP (dated September 2019) is attached to this statement (see Appendix I).

In addition, the Trustees receive from Aviva quarterly investment performance information so they can monitor the performance of the investment funds underlying the Drawdown Lifecycle, as well as the performance of the alternative investment options and funds available to members. The Trustees review this information at each Trustee meeting and for the year ending 31 December 2019, they are comfortable that the funds performed in line with expectations.

### **Three yearly review of the default investment strategy**

The Trustees undertake a strategic review of the default investment strategy and the other investment options every three years to ensure they remain appropriate for members, although an earlier review will be undertaken if there are any significant changes in investment policy or membership.

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As reported last year, the Trustees began the three-yearly review of the default investment strategy in 2018, the first phase of which was to analyse the membership to understand whether the Annuity Lifecycle remained appropriate for different groups of members. The analysis suggested that it is now more likely that members will draw an income directly from their pension account at retirement (commonly referred to as 'pension drawdown') and so the Trustees agreed to replace the Annuity Lifecycle with the Drawdown Lifecycle as the DC Section's default investment strategy. This change was made in April 2019.

### **The objective of the default investment strategy**

The objective of the Drawdown Lifecycle strategy is to provide those members who do not actively make their own investment choice with an investment strategy that aims to provide:

- Long term growth whilst a member is at least 20 years from retirement and can accept a reasonable level of risk
- A reduction in risk once a member is within 20 years of retirement by gradually increasing the diversification of the underlying investments whilst maintaining the prospect of growth over the medium term
- A further reduction in risk during the final 10 years as a member approaches retirement by investing in a diversified range of assets so that the underlying investments are broadly appropriate for a member wishing to take part of their retirement account as a tax-free lump sum and use the balance to provide an income using pension drawdown.

Full details of the Drawdown Lifecycle default strategy can be found in the SIP, which is attached to this statement and which is also available online at <https://vm.aviva.co.uk/swiss-re>.

### **The Legacy AVC Schemes**

None of the Legacy AVC Schemes have a default investment strategy.

### **Charges and Transaction Costs**

The charges paid by members are made up of each investment fund's Annual Management Charge (AMC) and additional expenses. The total of these is referred to as the Total Expense Ratio (TER). In addition, transaction costs arise when the investment manager buys or sells the investments held by each fund.

Information on the charges and transaction costs incurred by members during the year to 31 December 2019 for both the DC Section and the Legacy AVC Schemes is provided below.

#### **The DC Section – charges**

The charges for the DC Section are described below.

*The three lifecycles (including the default investment strategy)*

For the three lifecycles, the TERs vary as they depend on the time until a member reaches retirement. For the year to 31 December 2019, the TERs were as outlined below.

The Drawdown Lifecycle (the default investment strategy)

- The TER was 0.35% per annum whilst a member was at least 20 years from retirement
- Ranged from 0.35% to 0.45% pa whilst a member was between 20 and 10 years from retirement
- Ranged from 0.45% to 0.46% pa whilst a member was less than 10 years from retirement.

The Annuity Lifecycle

- The TER was 0.35% pa whilst a member was at least 20 years from retirement
- Ranged from 0.35% to 0.45% pa whilst a member was between 20 and 10 years from retirement
- Ranged from 0.45% to 0.35% pa whilst a member was less than 10 years from retirement.

### The Lump Sum Lifecycle

- The TER was 0.35% pa whilst a member was at least 20 years from retirement
- Ranged from 0.35% to 0.45% pa whilst a member was between 20 and 10 years from retirement
- Ranged from 0.45% to 0.35% pa whilst a member was less than 10 years from retirement.

### The self-select investment options

For the self-select investment funds available as alternatives to the three lifecycles, the TERs are shown in the table below.

Investment Fund	Used in lifecycle	AMC % pa	Additional Expenses % pa	TER % pa
<b>Equity funds</b>				
Swiss Re GB Global Equity Index	✓	0.35	0.00	0.35
Schroder QEP Emerging Market Equity	✗	0.97	0.10	1.07
Stewart Investors Global Emerging Markets Leaders	✗	1.00	0.07	1.07
Veritas Global Focus	✗	1.06	0.12	1.18
Artemis UK Special Situations	✗	1.00	0.06	1.06
BlackRock UK Equity Index	✗	0.35	0.00	0.35
BlackRock European Equity Index	✗	0.35	0.00	0.35
BlackRock Japanese Equity Index	✗	0.35	0.00	0.35
BlackRock US Equity Index	✗	0.35	0.00	0.35
BlackRock World Ex UK Equity Index	✗	0.35	0.00	0.35
BlackRock Pacific Rim Equity Index	✗	0.35	0.00	0.35
HSBC Islamic Global Equity Index	✗	0.55	0.00	0.55
Jupiter Ecology	✗	1.00	0.19	1.19
<b>Fixed Interest funds</b>				
M&G Corporate Bond	✗	0.97	0.16	1.13
BlackRock Over 15 Years Gilt Index	✓	0.35	0.00	0.35
BlackRock 5 Years Index Linked Gilt Index	✓	0.35	0.00	0.35
BlackRock Corporate Bond All Stocks Index	✓	0.35	0.00	0.35
<b>Other funds</b>				
Threadneedle Pension Property	✗	0.95	0.00	0.95
Money Market	✓	0.35	0.00	0.35
LGIM Diversified	✓	0.54	0.00	0.54

## The Legacy AVC Schemes – charges

The charges for the Legacy AVC Schemes are shown in the tables below for the funds in which members were invested at 31 December 2019.

### *Utmost Life and Pensions*

Fund name	AMC % pa	Additional Expenses % pa	TER % pa
Managed	0.75	n/a	0.75
With-Profits	1% plus 0.5% to cover the cost of guarantees.		

### *Aviva*

Fund name	AMC % pa	Additional Expenses % pa	TER % pa
Mixed Investment (40-85% Shares)	0.60	n/a	0.60
Mixed Investment (0-35% Shares)	0.60	n/a	0.60
Long Gilt	0.60	n/a	0.60
Deposit	0.60	n/a	0.60
With-Profits 1	0.60	n/a	0.60

### *Standard Life*

Fund name	AMC % pa	Additional Expenses % pa	TER % pa
Pension Managed	0.60	0.03	0.63
Pension Millennium With-Profits	Not explicit as Standard Life deducts charges and expenses from the returns allocated to the fund each year.		
Pension Millennium With-Profits 2006			
Pension With-Profits			

## The DC Section and the Legacy AVC Scheme – transaction costs

Transaction costs relating to the DC Section and Legacy AVC Schemes are those that arise as a result of buying or selling the investments held by each fund. This information has been provided to the Trustees for the year ending 31 December 2019 and is included in Appendix II.

There remain inconsistencies in the way the costs have been reported by the various providers, which continues to make it difficult to make any direct comparison. The Trustees will continue to work with the providers to try to ensure that, as far as possible, costs are reported in a consistent way and as data builds up, this will allow us to make a better judgement on how these transaction costs impact the value that members receive from the DC Section and Legacy AVC Schemes.

## Charges and transaction costs – the impact on benefits

### *The DC Section*

Aviva has provided some illustrations of how the charges and transaction costs impact members' benefits from the DC Section and these are shown in Appendix III. Whilst these helpfully highlight that a combination of lower charges and higher investment returns give better benefits, please remember that the returns shown are only estimates and cannot be guaranteed. There are several factors that you should consider when making investment choices, not least the level of risk you are prepared to take.

The Trustees confirm that they believe Aviva has taken into account the Statutory Guidance when preparing these illustrations.

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## *The Legacy AVC Schemes*

Illustrations of the impact on members' AVC benefits have not been provided because for most members, their AVC benefits do not form a significant part of their overall benefits in the Scheme when compared to their main pension benefits under the Scheme's Defined Benefit section.

### **Providing Value for Members**

The Trustees are committed to ensuring that the charges deducted from members' pension savings under the DC Section represent good value for members.

Accordingly, and taking in to account the relevant statutory guidance, the Trustees undertake an annual assessment of the costs and charges borne by members of the DC Section. For the year ending, the Trustees concluded that the DC Section continues to represent good value for members because:

- The annual charges\* incurred by members invested in the DC Section's default Drawdown Lifecycle (that range from 0.35% to 0.46%) are significantly below the statutory charge cap of 0.75%.
- In addition to the default Drawdown Lifecycle strategy, members have access to alternative lifecycle strategies and a broad range of investment funds covering a wide range of different asset classes, all of which have competitive charges compared to the market
- The investment funds that make up the lifecycle strategies and alternative self-select fund range have all performed in line with expectations except for the two emerging markets equity funds that both significantly underperformed their benchmarks
- Whilst Aviva has failed to meet the SLA targets during the year, which is disappointing, signs of improvements have been seen in some areas and the Trustees and the Company's Senior Pensions Manager will therefore continue to monitor Aviva closely in order to ensure this trend continues more widely, particularly in relation to core financial transactions (see next section)
- Members benefit from the Trustees' extensive oversight and governance of the DC Section, including the expertise of a professional independent trustee and Secretary to the Trustees, as well as a specialist DC investment adviser and consultant
- Members are provided with a wide range of services from Aviva and the Company's Senior Pensions Manager (who also provides extensive support to the Trustees) to help them plan for retirement, as well as an annuity broking service from Hargreaves Lansdown.

\* Whilst transaction costs have again been reported this year, they continue to be done in such a way that is not consistent and easily comparable. It therefore remains difficult to assess how transaction costs impact the value members receive from the DC Section

The Trustees will continue to review the charges and transaction costs deducted each year on a regular basis in order to ensure they continue to represent good value to members.

### **Monitoring Core Financial Transactions**

The Trustees regularly monitor the core financial transactions of the DC Section, which include:

- The collection and investment of contributions
- Switches between investment funds
- Payments to and in respect of members, including transfers into and out of the DC Section.

The majority of these transactions are undertaken on behalf of the Trustees by a combination of the Company and Aviva, the DC Section's administrators and investment managers. However, for a relatively small number of benefit payments (where a member has benefits under both the DC Section and the DB Section), HS Admin, the DB Section's administrators, takes the lead and liaises with Aviva.

In order to monitor the accuracy and timeliness of the DC Section's core financial transactions, the Trustees receive quarterly administration reports from Aviva (and HS Admin) and these are reviewed during the Trustees' quarterly meetings. The reports detail how Aviva has performed against the Service Level Agreement (SLA) and targets it operates for the Trustees. In addition, the Trustees meet with Aviva at least

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once a year, during which its performance against its SLA and targets can be discussed in more detail if the Trustees have any concerns.

To supplement the above, the Trustees also periodically receive information and advice from Willis Towers Watson on how Aviva's performance compares to other pension providers. This was most recently received in September 2018.

Finally, the Scheme's financial statements, that include the DC Section, are audited annually by the Trustees' appointed auditors, PricewaterhouseCoopers LLP, who report any discrepancies or concerns in its annual audit report to the Trustees.

Further information on the DC Section's core financial transactions is provided below.

#### *The collection and investment of contributions*

As reported last year, during 2018, the Company reviewed its processes and controls around the submission of monthly contributions. In addition, since November 2018, Aviva has operated an automated validation process that identifies any errors or omissions in the contribution data received before contributions are paid to Aviva by the Company.

Following the above changes, all contributions to the DC Section during 2019 were paid well within the statutory deadline except for the contributions for two members in April 2019 and one member in July 2019 due to a short delay in Aviva collecting the contributions. However, on both occasions, the reason for the delay was quickly identified and resolved, and the contributions were collected by Aviva shortly after the statutory deadline. Consequently, the Trustees were satisfied that these late contributions were not of material significance to the Pensions Regulator and consequently did not need to be reported.

The Trustees will continue to monitor the timeliness and accuracy of contribution submission during 2020 with updates being provided by the Company and Aviva at each quarterly Trustee meeting.

The Trustees are also satisfied that they are compliant with the Pensions Regulator's Code of Practice No 5 on reporting the late payment of contributions.

#### *Investment fund switches and benefit payments to and in respect of members*

During the year ending 31 December 2019, for the core financial transactions covering investment fund switches, transfers into and out of the DC Section and payments to retiring members, Aviva's performance against its SLA has been mixed. For the various tasks, the number completed within the SLA ranged from around 60% (for transfers out of the DC Section) to around 95% (for investment fund switches). Overall, across all tasks associated with fund switches and benefit payments to and in respect of members, around 70% were completed within the SLA.

In addition, Aviva received three complaints from members that related to the processing of core financial transaction, two of which were upheld.

Based on the above, whilst the Trustees are satisfied that some of the core financial transactions for the DC Section have been processed promptly and accurately during 2019, some of Aviva's performance against its SLAs and the small number of complaints has been disappointing. Therefore, the Trustees will liaise with and closely monitor Aviva during 2020 with the aim of achieving an improved performance.

#### **The Legacy AVC Schemes**

In relation to the Legacy AVC Schemes, as they are closed to further contributions with relatively few remaining members, financial transactions primarily relate to the payment of AVC benefits when a former member of the DB section retires. Details of any issues relating to the payment of AVC benefits are reported in the quarterly administration report from HS Admin.

During 2019, delays occurred in relation to the transfer of a member's AVCs from Aviva that resulted in the member submitting a complaint under the Scheme's Internal Dispute Resolution Procedure, which was upheld by the Trustees. Whilst the delay did not negatively affect the amount transferred, a small amount of compensation was paid due to the inconvenience caused.

As a result of the above incident, the Trustees are working with Aviva in order to agree a more efficient process for the disinvestment or transfer of a member's AVCs in order to ensure similar delays are avoided in the future.

### Trustees' Knowledge and Understanding (TKU)

As required by legislation and in line with the guidance provided in the Pensions Regulator's Code of Practice No 7, the Trustees have a process in place to ensure that they have the appropriate knowledge and understanding to enable them to undertake their duties and responsibilities in relation to the DC Section and the Scheme as a whole. This includes, for example, an understanding of the Scheme's key documents (such as the Trust Deed and Rules and SIP) as well as a knowledge on pension laws and principles relating to funding and investment. In addition, the Trustees benefit from inherent knowledge due to the nature of the Company's business as well as the appointment of a professional independent trustee and the use of a professional Secretary to the Trustees.

The above is supplemented as required by professional advice available from the Trustees' advisers.

The Trustee Directors' approach to meeting their TKU requirements includes:

- An agreed induction process for new Trustee Directors that requires the completion of the Pension Regulator's Trustee Toolkit within six months of appointment
- Requiring all Trustee Directors to complete updates and new modules added to the Pension Regulator's Trustee Toolkit
- Undertaking an informal annual assessment and periodic self-assessment of training needs (the last self-assessment was undertaken in November 2018) and subsequently agreeing a programme of bespoke trustee training for the year, which is delivered by the Trustees' advisers at Trustee meetings.
- Occasional attendance at external seminars held by the Trustees' advisers and other third-party firms
- The receipt of pension updates from its advisers at each Trustee meeting, including legislative changes and market practice, covering the Scheme as a whole together with matters specifically relevant to the DC Section.

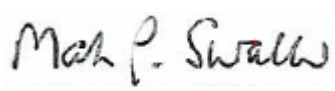
During the year covered by this statement, the Trustees received training on the new requirements for the information to be included in this statement and the need to publish it on a publicly available website, the new content to be included in the Trustees' SIP relating to investment strategy and 'environmental, social and governance' considerations and an update from their legal advisers on the balance of powers between the Trustees and the Company contained in the Trust Deed and Rules.

In addition, during the year, one new Trustee Director was appointed, and they have completed the Pensions Regulator's Trustee Toolkit.

All training undertaken by the Trustees is recorded in a training log.

Considering the above and the professional advice available to the Trustees, they consider that they can properly undertake their functions and responsibilities in relation to both the DC section and Legacy AVC Schemes as well as the Scheme as a whole.

This Statement regarding DC Governance was approved by the Trustees and signed on their behalf by:

<b>Chairman</b>		<b>Date</b>	22.07.2020
	Mark Swallow Chair of the Trustees The Swiss Re GB Pension Scheme		

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## **Appendix I: DC Section Statement of Investment Principles (dated September 2019)**

### **Introduction**

#### **Scheme details and effective date**

- This document describes the investment policy pursued by the Trustee of the Swiss Re GB Pension Scheme (the Scheme) for the Defined Contribution section of the Scheme. It details the position as at **30 September 2019**.
- The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme contains both a Defined Contribution Section and a Defined Benefit Section. This Statement of Investment Principles (SIP) focuses exclusively on the Defined Contribution Section.
- The Scheme is registered with Her Majesty's Revenue and Customs under Chapter 2 of Part 4 of the Finance Act 2004.

#### **Pensions Act**

- Under the Pensions Act 1995 and 2004 (the Pensions Acts), the Trustees are required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement for the Defined Contribution section of the Scheme.
- Before preparing this document, the Trustees have had regard to the requirements of the Pensions Acts concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.
- In creating this document, the Trustees have sought advice from their investment consultant, Towers Watson Limited (Willis Towers Watson). The Trustees will review this document, in consultation with the investment consultant, at least once every three years and without delay after a significant change in investment policy.

#### **Financial Services and Markets Act 2000**

- In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments, subject to restrictions, to an appointed investment manager or managers, which may include an insurance company or companies. The investment manager(s) shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

#### **Socially responsible investment and the exercising of rights**

- The Occupational Pension Schemes (Investment) Regulations 2005 require the Trustees to disclose the following in the statement of investment principles;
  - The extent (if any) to which social, environmental or ethical considerations are taken into account in its investment policy, and
  - The policy (if any) on exercising rights attaching to investments.

The Trustees' policy as at 31 December 2018 is set out within this document accordingly.



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## **Beliefs and objectives**

### **Investment beliefs: Defined Contribution Section**

The Trustees of the Scheme have considered their investment beliefs which result in the following approach to the investment strategy of the Defined Contribution Section of the Scheme.

- Members should have a choice between an appropriate default lifecycle strategy, two alternative lifecycle investment strategies, and a limited range of self-select funds.
- The range of self-select funds should offer different asset classes and key sub-classes within each asset class; e.g. within the equities asset class we should seek to offer sub-asset class options covering global and regional equity markets. The Scheme does not seek to offer an extensive fund choice within each sub-asset class.
- While noting the previous point, the number of self-select funds should be limited as far as possible since offering too many options may discourage members from making a choice.
- The Scheme can offer cost efficient funds due to scale, which contribute to longer term value for members.
- Passive funds are usually more cost-efficient. Active funds can add value, including to diversify and manage risks, particularly for asset classes for which markets are less efficient (e.g. emerging markets equities), or for which no passive option is available (property). The Trustees believe they have a process in place to select and review an appropriate selection of funds to meet the majority of members' needs.
- The Scheme should offer specialist funds where appropriate and practical (e.g. for ethical, sustainable or religious considerations).
- The default lifecycle option should be determined based on appropriate review of the membership and advice from the Scheme's Defined Contribution investment consultant; it currently targets the drawdown option of benefits.
- The Scheme encourages members to exercise the investment options available to them in the Scheme but appreciates that many members will be more comfortable with the default lifecycle option.
- The Scheme makes these Defined Contribution self-select funds available to members, on the expectation these will be considered alongside their other pension savings and their overall risk appetite, which only they know. Members are reminded through communications that they could consider seeking independent financial advice.

### **Objectives: Defined Contribution Section**

- To secure assets of appropriate liquidity which will generate income and capital growth which, together with any new contributions from members and the Company, will provide members with a fund at retirement with which to provide retirements benefits either by the purchase of a pension annuity, the payment of a cash lump sum, regular withdrawals through 'pension drawdown' or any combination of these.
- To provide a default lifecycle strategy appropriate for those members who do not want to make an investment choice of their own.
- To recognise and limit (in as far as is reasonably consistent with the provision of member choice as set out under the Scheme's rules) the risk of a member's account failing to satisfy the member's

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reasonable expectations over the long term given the level of contributions to the Scheme by the member and the company on the member's behalf.

- To maximise the long-term benefits from the Scheme by allowing members to maximise the returns on their assets at an acceptable level of risk whilst having regard to the objectives shown under the previous paragraph.
- The Trustees aim to meet the long-term objectives by:
  - Seeking advice, as appropriate, from the Scheme's professional advisers
  - Offering a suitable range of investment funds and options, including a suitable default lifecycle strategy, which should provide members with a method by which they are able to mitigate the various types of risk they face – inflation risk, capital value risk, missed opportunity risk and pension conversion risk (these risks are explained in more detail below).

### **Policy: Defined Contribution Section**

- Members' investment needs change as they progress towards retirement age. Younger members typically have a greater need for real growth in an attempt to ensure their investment accounts grow at a rate greater than both inflation and salary escalation. Younger members will also, all other things being equal, have a greater tolerance for volatility of returns, as they have a greater time to retirement in which markets may recover from any temporary low. They also have larger "human capital" in terms of their future earnings potential from which to recover from a shortfall position.
- In contrast, older members may require a greater level of consistency in the value of their investment accounts. At this stage, depending on how they are planning to take their benefits, capital preservation and annuity price (liability) matching may become more important.
- The Trustees consider that the objectives of the Defined Contribution Section are likely to be met by offering:
  - A range of investment funds to members that are sufficiently diverse in terms of asset class so as to cater for the investment needs of members at each stage of their working lives, and;
  - Lifecycle strategies that are suitable for those members who do not wish to select their own investment funds.
- The Trustees have decided to offer a selection of passively and actively managed investment options. Passively managed funds aim to match the performance of a chosen index, whether it goes up or down. Use of passive management minimises the risk of underperformance attributable to manager skill in asset (e.g. stock) selection, and passively managed funds typically attract lower charges.
- The full range of investment options is given in appendix A.

### **Financially material considerations, stewardship, and engagement**

- The Trustee's policy is to take account of all financially material considerations in consultation with its advisers. Risks and opportunities are assessed for materiality and impact within a broader risk management framework, which takes account of members' time horizons. The Trustee will consider financially material factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework. The Trustee does not currently have an active policy of considering non-financial matters in its investment decision making.

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- The Trustee's policy is that day-to-day decisions relating to the selection, retention, and realisation of the Scheme's assets is left to the discretion of the investment managers. This includes consideration of all financially material factors, including ESG-related issues where relevant. The Trustee explores these issues with its advisers to understand how the investment managers exercise these duties in practice.
  - When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment consultant, looks to take account of the approach taken by managers with respect to sustainable investing including voting policies and engagement where relevant. The Trustee's policy is to delegate responsibility for the exercising of ownership rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code as best practice and encourages its investment managers to comply with the UK Stewardship Code or explain where they do not adhere to this policy.
  - The HSBC Islamic Global Equity Index and Jupiter Ecology Funds have been included in the self-select fund range to cater for members who may wish to express non-financial considerations in their investment selection. The Trustees' policy at this time is not to take into account more widely members' views on non-financial matters in the selection, retention and realisation of investments.

### **Corporate governance**

- The Trustees have reviewed and accept the individual corporate governance policies implemented by the Defined Contribution Section's investment managers. The Trustees have asked the investment managers to exercise their voting and other rights as shareholders in a manner which is, in the investment manager's opinion, consistent with best practice in relation to corporate governance and the statement on socially responsible investment set out above.

### **Diversification**

- The choice of benchmarks and the range of funds made available to members are designed to ensure the Defined Contribution Section's investments can be adequately diversified. Where the Defined Contribution Section invests via pooled funds the Trustees are not in a position to ensure the assets are diversified within asset classes. However, this issue will feature in the monitoring process for the investment manager.

### **Suitability**

- The Trustees have taken advice from the investment consultant to ensure the lifecycle strategies and fund range made available to members are suitable for members of the Defined Contribution Section.

### **Liquidity**

- The members' accounts are held in funds which can be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement (although in the case of the property fund market conditions may delay the realisation of the assets).

## **Investment management arrangements and risk controls**

### **Manager structure**

- Aviva has been selected as the provider for the Defined Contribution Section. Aviva offers access to externally managed funds, which may be included within the range available to members.

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## Ongoing monitoring

- The Trustees must also satisfy themselves that the investment managers continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Defined Contribution Section.
- The Trustees believe in developing a disciplined framework for monitoring the investment managers. The performance of the investment managers appointed under the Defined Contribution Section is monitored at least annually. The appointment of the investment managers will be reviewed by the Trustees from time to time, based on the results of its monitoring of performance and process.

## Risk management

- The Trustees recognise a number of risks involved in the investment of assets of the Defined Contribution Section, including:

### Manager risk

- Is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- Is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.

### Capital risk

- Is the risk that the value of a member's account will fall in value over any period of time.
- Is managed by the provision of a cash fund, although the Trustees would not encourage members to exclusively invest in cash. In addition, it is managed by the provision of lifecycle strategies that aim to reduce volatility as members approach retirement.

### Inflation risk

- Is the risk that the real value of a member's account falls. This could be by failing to achieve an adequate amount of return to grow a member's account at least in line with price inflation.
- Is managed by the provision of funds investing in asset classes offering the prospect of growth in excess of inflation.

### Missed opportunity risk

- The risk that a member takes insufficient investment risk when they are able to do so, resulting in a smaller investment account at retirement.
- Is managed by the provision of lifecycle strategies which aim to automatically adjust a member's risk exposure by term to retirement.

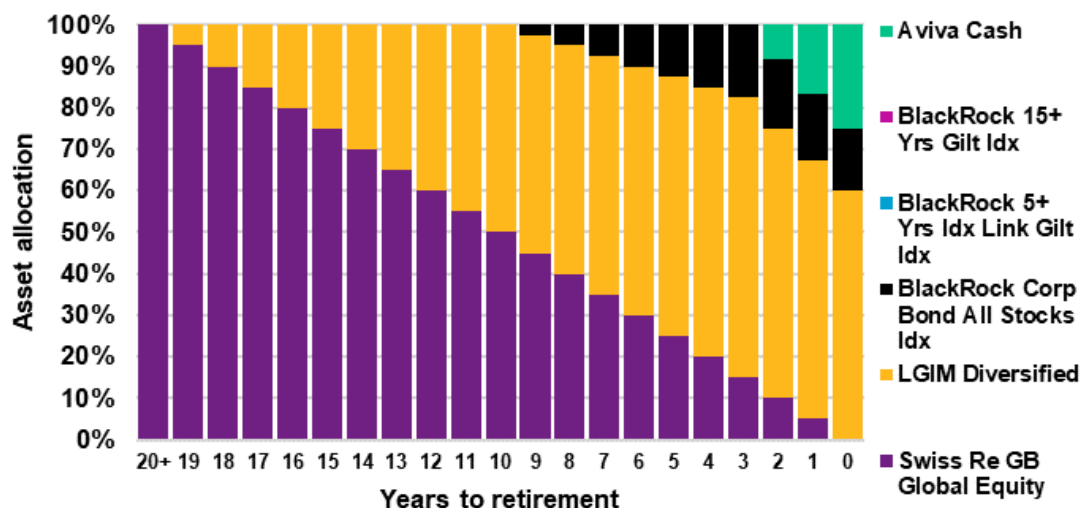
### Pension conversion risk

- For a member who intends to purchase an annuity at retirement, the risk that the value of their account falls relative to the cost of purchasing the annuity, resulting in a reduced pension.
  - Is managed by the provision of long index-linked gilt, fixed coupon gilt, and corporate bond funds as well as a lifecycle arrangement.
- The Trustees undertake to monitor these risks on a regular basis.

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## Defined Contribution Section default option

- As at September 2019 the Defined Contribution Section's default option was the Drawdown Lifecycle strategy; a change having been made from the Annuity Lifecycle in April 2019.
- The objective of the Drawdown Lifecycle is to provide those members who do not actively make their own investment choice with an investment strategy that aims to provide:
  - Long term growth whilst a member is at least 20 years from retirement and can accept a reasonable level of risk.
  - A reduction in risk once a member is within 20 years of retirement whilst maintaining the prospect of growth over the medium term by gradually increasing the diversification of the underlying investments.
  - A further reduction in risk as a member approaches retirement, with investments made in a diversified range of asset classes intended to be broadly appropriate for a member wishing to utilise income drawdown at retirement.
- The Drawdown Lifecycle aims to achieve the above by investing in a number of funds as follows:
  - Investing wholly in global equities whilst a member is at least 20 years from retirement, split 30% in the UK and 70% overseas.
  - The global equities are passively managed by BlackRock and the return is expected to closely match that of global stock markets as measured by a composite benchmark made up of 30% FTSE All-Share Index, 60% FTSE All-World Developed (ex-UK) Index (hedged to GBP) and 10% MSCI Emerging Markets Index.
  - Gradually increasing the diversification of the underlying investments during the period that a member is between 20 and 10 years from retirement by partly switching out of global equities so that, when a member is 10 years from retirement, they are invested equally in passively managed global equities and a diversified growth fund.
  - The global equities are passively managed by BlackRock and the return is expected to closely match that of global stock markets (see above). The diversified growth fund is managed by Legal & General Investment Management and aims to achieve a return of 3.5% per annum above the London Interbank Offered Rate (LIBOR).
  - Switching to a mixture of cash, corporate bonds and the diversified growth fund during the 10 years immediately preceding a member's retirement so that on retirement, they are invested 25% in cash, 10% in corporate bonds, and 65% in the diversified growth fund. In relation to this phase of the Drawdown Lifecycle:
    - The corporate bonds are passively managed by BlackRock and the return is expected to closely match the iBoxx £ Non-Gilts Index
    - The diversified growth fund is managed by Legal & General Investment Management and aims to achieve a return of 3.5% per annum above LIBOR (see above).
    - Cash is managed by Aviva and the return is expected to be in line with the 7 Day London Interbank Bid Rate (LIBID).
- The glide-path for the Drawdown Lifecycle strategy is set out below:

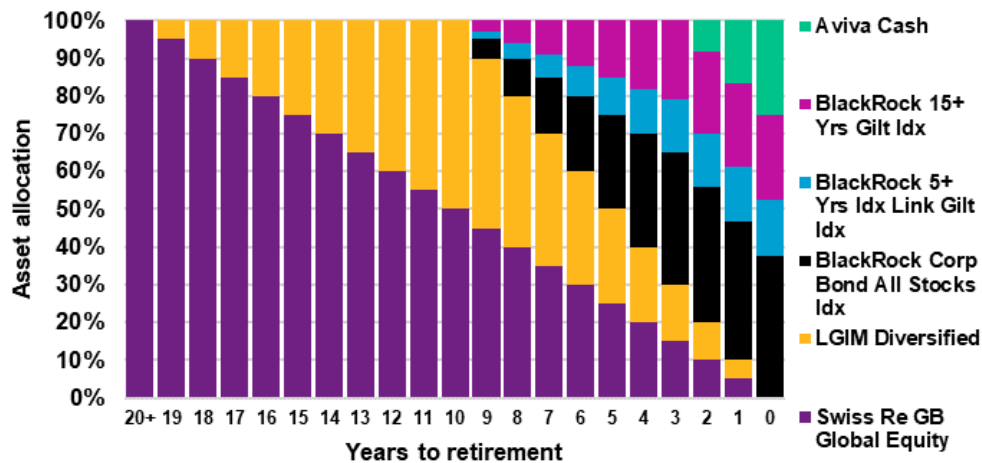


- To ensure assets in the default investment option are invested in the best interests of members and beneficiaries, the Trustees conducted a strategic review of the Scheme’s membership and investment options in 2013, which was supplemented by an additional review in 2015 to address the ‘freedom and choice’ reforms which granted members greater flexibility at retirement. The Trustees considered a variety of demographic variables, to better understand the risk profile of the membership and members’ likely retirement decisions. Based on this understanding of the membership, a default investment option that targets annuity purchase at retirement was considered appropriate at the time.
- A further review of the Scheme’s membership and investment options concluded in 2018. The Trustees agreed to restructure the Drawdown Lifecycle and change the default investment option from the Annuity Lifecycle to the new Drawdown Lifecycle. The changes were implemented in April 2019, with all members more than three years from retirement at that time transitioned to the new Drawdown Lifecycle. Members within three years of retirement remained in the Annuity Lifecycle.
- The Trustees will continue to review the default option at least triennially, or sooner if there are material changes to the membership. In addition, members are supported by clear communications regarding the aims of the default option and the access to alternative investment options

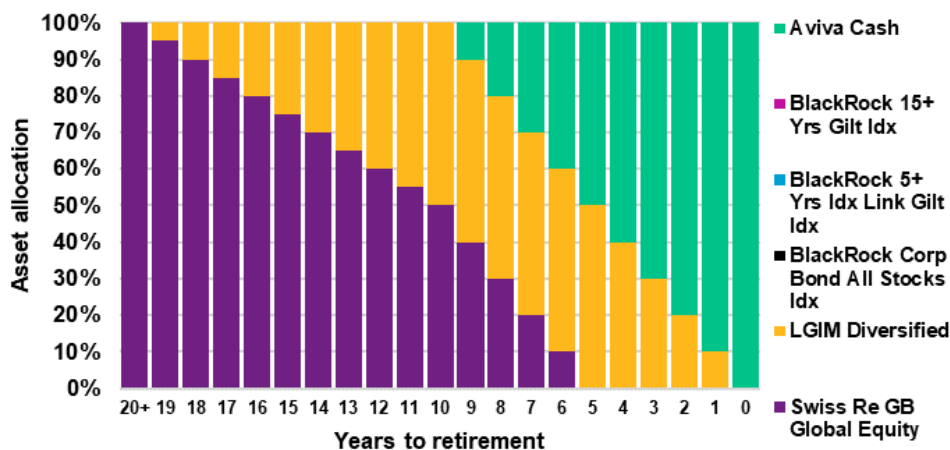
## SIP Appendix A

### Defined Contribution Section: alternative lifecycles

- The Annuity and Lump Sum Lifecycles
  - Both lifecycles aim to provide long term growth whilst a member is at least 20 years from retirement and can accept a reasonable level of risk.
  - Both lifecycles then deliver a reduction in risk once a member is within 20 years of retirement whilst maintaining the prospect of growth over the medium term by gradually increasing the diversification of the underlying investments.
  - The Annuity Lifecycle then aims to deliver a further reduction in risk as a member approaches retirement, with investments made in a mixture of cash, corporate bonds and UK government gilts (both fixed coupon and index-linked), to offer a degree of protection against changes in annuity prices.
  - The glide-path for the Annuity Lifecycle strategy is set out below:



- The Lump Sum Lifecycle by contrast does not explicitly allocate to corporate bonds and UK government gilts, and instead significantly increases the level of cash a member holds as they approach retirement to mitigate short term risks to the capital value of their savings, on the assumption the member will draw a lump sum at retirement.
- The glide-path for the Lump Sum Lifecycle strategy is set out below:



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**Defined Contribution Section: self-select fund range**

<b>Funds</b>	<b>Benchmarks</b>
<b>Equities:</b>	
Artemis UK Special Situations	FTSE All Share Index
BlackRock European Equity Index	FTSE All-World Developed Europe (ex-UK) Index
Swiss Re GB Global Equity (BlackRock Global (30:70) Equity Index)	Weighted performance using relevant indices 30% UK, 60% FTSE All-World Developed ex-UK Index and 10% MSCI Emerging Markets Index
BlackRock Japan Equity Index	FTSE All-World Japan Index
BlackRock Pacific Rim Equity Index	FTSE All-World Developed Asia Pacific (ex- Japan) Index
BlackRock UK Equity Index	FTSE All Share Index
BlackRock US Equity Index	FTSE All-World USA Index
BlackRock World Ex-UK Equity Index	FTSE All-World Developed (ex-UK) Index
HSBC Islamic Global Equity Index	Dow Jones Islamic Titans 100 Index (Total Return)
Jupiter Ecology	FTSE World Index
Schroders QEP Emerging Market Equity	MSCI Emerging Markets Net Total Return Index
Stewart Investors Global Emerging Market Leaders	MSCI Emerging Markets Net Total Return Index
Veritas Global Focus	MSCI World NDR Index
<b>Bonds:</b>	
BlackRock All Stocks Corporate Bond Index	iBoxx £ Non-Gilts.
BlackRock > 15 Year Gilt Index	FTSE UK Gilts Over 15 Years Index
BlackRock >5 Year Index-Linked Gilt Index	FTSE UK Gilts Index-Linked Over 5 Years Index
M&G Corporate Bond	iBoxx Sterling Corporates Index
<b>Diversified:</b>	
LGIM Diversified	LIBOR + 3.5%
<b>Property:</b>	
Threadneedle Property	CAPS Property Median
<b>Cash:</b>	
Aviva Cash	3 month LIBID

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## Appendix II: Transaction Costs for the year to 31 December 2019

The tables below show the transaction costs incurred over the year to 31 December 2019 for the DC Section and Legacy AVC Schemes. This information is shown for the funds in which members were invested at 31 December 2019.

Where transaction costs are not currently available, the Trustees will continue to liaise with the managers in order to obtain this information for inclusion in next year's statement.

### The DC Section

Investment Fund	Used in Lifecycle	Transaction costs %
<b>Equity funds</b>		
Swiss Re GB Global Equity Index	✓	0.1051
Schroder QEP Emerging Market Equity	✗	0.5242
Stewart Investors Global Emerging Markets Leaders	✗	0.1660
Veritas Global Focus	✗	See note 1
Artemis UK Special Situations	✗	0.1622
BlackRock UK Equity Index	✗	0.0861
BlackRock European Equity Index	✗	0.1069
BlackRock Japanese Equity Index	✗	0.0228
BlackRock US Equity Index	✗	0.0155
BlackRock World Ex UK Equity Index	✗	0.0240
BlackRock Pacific Rim Equity Index	✗	1.1087
HSBC Islamic Global Equity Index	✗	0.0000
Jupiter Ecology	✗	0.0305
<b>Fixed Interest funds</b>		
M&G Corporate Bond	✗	0.0000
BlackRock Over 15 Years Gilt Index	✓	0.0055
BlackRock 5 Years Index Linked Gilt Index	✓	0.0339
BlackRock Corporate Bond All Stocks Index	✓	0.0000
<b>Other funds</b>		
Threadneedle Pension Property	✗	0.1498
Cash	✓	See note 1
LGIM Diversified	✓	0.0000

Note 1: at the date this statement was signed, Aviva was still waiting for this information to be provided by the underlying investment manager.

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## The Legacy AVC Schemes

### *Utmost Life and Pensions*

<b>Fund name</b>	<b>Transaction costs %</b>
Managed	0.0084
With-Profits	n/a

### *Aviva*

<b>Fund name</b>	<b>Transaction costs %</b>
Mixed Investment (40-85% Shares)	0.0411
Mixed Investment (0-35% Shares)	0.0433
Long Gilt	0.0425
Deposit	n/a
With-Profits 1	0.0900

### *Standard Life*

<b>Fund name</b>	<b>Transaction costs %</b>
Managed Pension	0.001567
Pension Millennium With-Profits and Pension Millennium With-Profits 2006	0.000409
Pension With-Profits	0.000645

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## Appendix III: The impact of charges and transaction costs

Note: the following information and illustrations have been provided by Aviva Life & Pensions on behalf of the Trustees.

### What are these illustrations for and how could they help you?

The information in this document is an 'illustration'. This is to show you the possible effect of costs and charges on your pension savings to help you plan for your retirement. The figures shown in it are not personal to you and do not show the actual pension benefits you could get from the pension scheme.

Your pension scheme benefits depend on many things such as contributions from you or your employer, how your investment funds have performed, and costs and charges. You may get back less than you put in.

### How charges affect your pension scheme's investment funds

On the following pages are tables which show how different costs and charges can impact the pension pot over certain periods of time, based on a selection of investment funds. **Table 1** shows typical funds for your pension scheme whereas **Table 2** shows a range of funds in your scheme with different growth rate assumptions and charges.

Under each investment fund, there are two columns. The first shows the projected pension values assuming no charges are taken. The second shows the projected pension values after costs and charges are taken. By comparing the two you can see how much the charges over the years will impact your pension fund. So, for example, if you started your pension at age 30 and expect to retire at 65, the figures at the end of year 35 would give an idea of the effect of charges over the 35 years you are invested. The figures are based on a monthly investment of £100 – see later for the assumptions we use.

### How we worked out the figures in the tables

It's important to understand how much or how little difference charges make to your pension pot, but we can't predict exactly what will happen in the future, so we've had to make some assumptions. The values shown are estimates and are not guaranteed.

These assumptions are:

1. We've assumed someone doesn't have anything in their pension pot when they start saving. Contributions are assumed to be paid equal to £100 monthly increasing in line with assumed earnings inflation of 2.5% each year.
2. The figures illustrate the pension pot value in 'today's money', which means they take inflation into account by discounting values at 2.5% a year. Seeing the figures in this way shows you what they could be worth today. It's important to note that inflation reduces the worth of all savings and investments. The effect of this is shown in the illustration and could mean the fund may reduce as well as grow in 'today's money'.
3. Transaction costs may not have been included where data was not available from the fund managers.

### Some important things to remember

Your scheme will offer other funds to those illustrated, with different growth potential and different charges, and may also offer some form of lifestyling investment approach. If you have selected the lifestyling investment approach your pension pot will automatically be moved into different funds as you approach your retirement date and your scheme literature will provide details of how this works. As the individual funds used in a lifestyling approach have different growth potential and different charges, the overall growth rate and overall charge will change over time.

For these reasons, we have shown a range of funds with a range of charges which are available to you and which could apply to your pension pot during the life of your plan. A personal projection of your pension pot is included in your annual benefit statement and you should read that to get an individual view of your projected pension benefits. You'll also find details of the actual charges applicable to you in your scheme literature.

The figures shown in the tables:

- Shouldn't be used to make investment decisions, so if you need to do that, we recommend that you take financial advice.
- May not be relevant to your personal circumstances. Your money may be invested in different funds, for example.

Table 1

Illustrations of the effect of costs and charges within the Swiss Re GB Pension Scheme's Defined Contribution Section										
	Swiss Re GB Global Equity Index		AP LGIM Diversified XE		AP BlackRock Corporate Bond All Stocks Index XE		AP BlackRock UK Equity Index XE		AP BlackRock Over 15 Year Gilt Index XE	
	Assumed growth rate 5% pa		Assumed growth rate 4.3% pa		Assumed growth rate 3% pa		Assumed growth rate 5% pa		Assumed growth rate 2.5% pa	
	Assumed costs and charges 0.44% pa		Assumed costs and charges 0.48% pa		Assumed costs and charges 0.38% pa		Assumed costs and charges 0.43% pa		Assumed costs and charges 0.37% pa	
At end of year	Projected value with no charges taken	Projected value after costs and charges are taken	Projected value with no charges taken	Projected value after costs and charges are taken	Projected value with no charges taken	Projected value after costs and charges are taken	Projected value with no charges taken	Projected value after costs and charges are taken	Projected value with no charges taken	Projected value after costs and charges are taken
1	£1,200	£1,200	£1,200	£1,190	£1,190	£1,190	£1,200	£1,200	£1,190	£1,180
2	£2,430	£2,420	£2,420	£2,400	£2,390	£2,380	£2,430	£2,420	£2,370	£2,360
3	£3,700	£3,670	£3,660	£3,630	£3,590	£3,570	£3,700	£3,670	£3,560	£3,540
4	£4,990	£4,940	£4,920	£4,870	£4,790	£4,760	£4,990	£4,940	£4,750	£4,710
5	£6,310	£6,240	£6,200	£6,130	£6,010	£5,950	£6,310	£6,240	£5,930	£5,880
10	£13,400	£13,100	£13,000	£12,700	£12,200	£11,900	£13,400	£13,100	£11,900	£11,600
15	£21,500	£20,700	£20,400	£19,600	£18,500	£17,900	£21,500	£20,700	£17,800	£17,300
20	£30,500	£29,100	£28,400	£27,000	£24,900	£24,000	£30,500	£29,100	£23,700	£22,900
25	£40,700	£38,400	£37,200	£34,900	£31,500	£30,000	£40,700	£38,400	£29,700	£28,300
30	£52,300	£48,600	£46,800	£43,300	£38,300	£36,100	£52,300	£48,700	£35,600	£33,700
35	£65,300	£59,800	£57,200	£52,200	£45,300	£42,300	£65,300	£60,000	£41,500	£39,000
40	£79,900	£72,300	£68,600	£61,800	£52,400	£48,400	£79,900	£72,500	£47,500	£44,100
45	£96,500	£86,000	£81,100	£71,900	£59,700	£54,600	£96,500	£86,300	£53,400	£49,200
50	£115,000	£101,000	£94,700	£82,700	£67,200	£60,900	£115,000	£101,000	£59,300	£54,200

Table 2

Illustrations of the effect of costs and charges for funds with different growth rates and charges within the Swiss Re GB Pension Scheme's Defined Contribution Section								
	AP BlackRock Over 5 Year Index-Linked Gilt Index XE		AP Cash XE		Swiss Re GB Global Equity Index XE		AP Artemis UK Special Situations XE	
	Assumed growth rate 2% pa		Assumed growth rate 1.5% pa		Assumed growth rate 5% pa		Assumed growth rate 5% pa	
	Assumed costs and charges 0.35% pa		Assumed costs and charges 0.35% pa		Assumed costs and charges 0.44% pa		Assumed costs and charges 1.38% pa	
At end of year	Projected value with no charges are taken	Projected value after costs and charges are taken	Projected value with no charges are taken	Projected value after costs and charges are taken	Projected value with no charges are taken	Projected value after costs and charges are taken	Projected value with no charges are taken	Projected value after costs and charges are taken
1	£1,180	£1,180	£1,180	£1,180	£1,200	£1,200	£1,200	£1,190
2	£2,360	£2,350	£2,350	£2,340	£2,430	£2,420	£2,430	£2,400
3	£3,530	£3,510	£3,510	£3,490	£3,700	£3,670	£3,700	£3,620
4	£4,700	£4,670	£4,650	£4,620	£4,990	£4,940	£4,990	£4,850
5	£5,860	£5,810	£5,790	£5,740	£6,310	£6,240	£6,310	£6,090
10	£11,600	£11,400	£11,300	£11,100	£13,400	£13,100	£13,400	£12,500
15	£17,200	£16,700	£16,500	£16,100	£21,500	£20,700	£21,500	£19,300
20	£22,600	£21,800	£21,500	£20,800	£30,500	£29,100	£30,500	£26,400
25	£27,900	£26,700	£26,300	£25,200	£40,700	£38,400	£40,700	£33,800
30	£33,100	£31,400	£30,800	£29,300	£52,300	£48,600	£52,300	£41,700
35	£38,200	£35,900	£35,100	£33,200	£65,300	£59,800	£65,300	£50,000
40	£43,100	£40,300	£39,200	£36,800	£79,900	£72,300	£79,900	£58,700
45	£47,900	£44,400	£43,200	£40,200	£96,500	£86,000	£96,500	£67,900
50	£52,600	£48,400	£46,900	£43,300	£115,000	£101,000	£115,000	£77,600