KONICA MINOLTA BUSINESS SOLUTIONS (UK) PENSION PLAN
YEAR ENDED 30 SEPTEMBER 2017

CHAIRMANS ANNUAL GOVERNANCE STATEMENT

For the year ended 30th September 2017

Konica Minolta Business Solutions (UK) Pension Plan

Defined Contribution Section and AVC arrangements

Introduction

From 6 April 2015 new governance standards apply to defined contribution pension arrangements like the DC section of the Plan. These are designed to help members achieve a good outcome from their pension savings.

As Chair of the Trustees of the Konica Minolta Business Solutions (UK) Pension Plan, I have to provide you with a yearly statement which explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards.
This statement has been prepared by the Trustees of the Plan in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended). It describes how the Trustees have met the statutory governance standards covering the 2017 Plan year ('the Plan year') in relation to:

- The default arrangements;
- Requirements for processing financial transactions;
- Assessment of charges and transaction costs;
- The requirement for trustee knowledge and understanding;

The Trustees are committed to having high governance standards and we monitor the controls and processes in place in connection with the Plan's DC section's investments and administration at each full Trustees meeting.

I welcome this opportunity to explain what the Trustees do to help to ensure the Plan is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do let us know.

Default investment arrangement

A default investment arrangement is set up by the Trustees and provided for members who do not choose an investment option for their contributions. Members can also choose to invest in this default investment arrangement.

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the default arrangement. The Trustees take professional investment advice from regulated investment advisers to determine the investment choices they make available to members.

Setting an appropriate investment strategy

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the statement of investment principles. A copy of the latest statement of investment principles is attached – see Appendix 1.

The Plan gives members two investment options:

> *Lifestyle investment strategy*: The Lifestyle strategy has been designed so that, as members approach retirement, their investments are progressively moved into bonds and cash. Lifestyle is therefore a strategy for members who do not wish to continually review the investments they hold.

CHAIRMANS ANNUAL GOVERNANCE STATEMENT
For the year ended 30th September 2017

Self-Select investment strategy: Alternatively members can choose from the range of funds offered by the Trustees. There are a number of funds available.

We have chosen the Lifestyle strategy as the default investment arrangement. As the majority of assets are held in the default strategy, this statement is mainly concerned with the Lifestyle investment strategy.

When deciding on the investment strategy, the Trustees recognise that the majority of members do not take active investment decisions and instead invest in the default option. Therefore, the Trustee's primary objective in deciding on an investment strategy is to ensure that the strategy is appropriate for a typical member, taking into account their age and planned retirement date.

When choosing the default strategy, it is the Trustees' policy to consider a range of asset classes, together with their expected returns and the expected volatility of those returns. The suitability of styles of investment management, and the need for diversification are also considered. The Trustees also recognise that there are various investment and operational risks, and give qualitative and quantitative considerations to such risks.

The Lifestyle arrangement is designed for members who do not want to individually select the funds in which their contributions are invested. It is a predefined strategy which targets a retirement age of their choice and aims to invest in the most appropriate assets as their needs change.

The Lifestyle arrangement's objective is to target higher returns whilst members are younger, through investing the majority of their Pension Account in equities (whilst more volatile, equities have historically provided greater returns over the long term than any other asset class), before switching funds to more conservative investments such as bonds and cash as members approach retirement age (to provide greater stability to capital accumulated as they near retirement).

Contributions are initially invested 70% in equities and 30% in bonds.

Over the last seven years before the member's chosen retirement date (this will be age 65 unless they inform the Trustees otherwise) the Pension Account's underlying investments will gradually be moved so that on retirement the Pension Account will be invested 75% in bonds and 25% in cash. Switches between the investment funds are made on an annual basis.

The Lifestyle arrangement's strategy means that, as members proceed through their working life and their investment priorities and attitudes to risk alter, the distribution of investments is automatically adjusted to take this into account.

Reviewing the default investment arrangement

The Trustees are expected to review the strategy and objectives of the default investment arrangement regularly, and at least once every three years. Any review will take into account the needs of the Plan membership.

During the year the Trustees reviewed both the Lifestyle and Self-Select funds. This included taking advice from the Trustees' investment consultant.

The Trustees have considered the membership profile of the DC Section of the Plan, the risk profile and number of investment funds offered to members.

To fulfil our fiduciary duty to act in members' best interests, we first confirmed our understanding of the key features of the current and expected membership. We used this information to develop an understanding of their needs, attitudes and expectations.

CHAIRMANS ANNUAL GOVERNANCE STATEMENT
For the year ended 30th September 2017

As a result of this review, it was decided to:

- Offer members three lifestyle approaches – cash, drawdown and annuity, with the drawdown approach to become the new default arrangement. Members can then choose if they wish to actively move into one of the other two lifestyle arrangements.
- Replace all current Newton funds with equivalent LGIM funds.
- In the lifestyle 'growth' phase (pre-7years prior to retirement) the default fund will be the LGIM Diversified Fund. This has a comparable growth/bond split to the Newton fund that it replaces, but at a lower fee.

Full details of the Lifestyle and Self Select investment strategies are available in the members' investment guide, provided each year with the annual benefit statements.

The Trustees formally monitor the performance of both the Lifestyle and Self-Select funds under a separate agenda item at each full Trustees' meeting. Two full investment monitoring reports and two investment updates were received over the year.

In addition, there is a facility for contributing members of the DC Section to pay AVCs to help increase their pension savings. AVCs paid into a member's Pension Account will have the same investment and retirement options as regular contributions.

Charges and transaction costs paid by members

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Trustees calculated the charges and, so far as they were able to do so, the transaction costs, borne by members of the Plan between 1 October 2016 and 30 September 2017 (the end of the Plan year).

(For these purposes 'charges' means Plan administration charges excluding transaction costs, costs relating to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs, or costs solely associated with the provision of death benefits. Transaction costs are those incurred as a result of buying, selling, lending or borrowing investments.)
As well as meeting the general running costs of the Plan, the Company meets the members' record keeping costs and certain benefit settlement costs. This means that members are only required to meet the annual cost of investing their Pension Accounts. These costs are taken by the investment managers from the funds held. The investment management fee is clearly communicated to members annually in the investment guide issued with the benefit statements.

As at 30 September 2017, the average annual investment charge for the default investment arrangement for members more than seven years from retirement was 0.41% (until members enter the switching period, the investment strategy is to invest 70% in the Newton Global Equity 50:50 Fund and 30% in fixed income funds equally split between the Newton Long Corporate Bond Fund and the Newton Long Gilt Fund). As the asset allocation moves towards lower risk funds this will lead to a lower annual management fee. Annual investment charges are therefore below the Government's 'maximum' charge cap of 0.75% per annum.

The range of the level of charges applicable to the DC Section of the Plan's other investment funds during the last Plan year are detailed in appendix 4 of the SIP – see appendix 1.

For the year to 30 September 2017, the investment managers for the Defined Contribution Section confirmed that there were no transaction costs met by members.

CHAIRMANS ANNUAL GOVERNANCE STATEMENT
For the year ended 30th September 2017

Good value for members

In accordance with regulation 25(1)(b) of the Administration Regulations, the Trustees have assessed the extent to which charges (and transaction costs) borne by members represent good value for members. As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which the investment options and benefits offered by the Plan's DC Section represent good value for members, when compared with other options available in the market..

The Company makes a contribution of 6% of Contributory Pay for active members of the DC Section, with members making contributions of 4% of Contributory Pay.

There is no legal definition of 'good value' and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

In undertaking the assessment the Trustees considered:

- Some of the advantages of membership of the Plan (contribution structure, administration services, member support, governance and member communications).

- Investment arrangements (including the performance of the growth phase of the default investment arrangement).

- Charges applied to members.

Members of the Defined Benefit Section who have historically paid AVCs, are now permitted to transfer their legacy AVCs to their Pension Accounts under the DC Section to make use of the increased retirement and investment options available.

The opinion of the Trustees is that the DC Section of the Plan provides good value for money. The combination of investment costs and benefit options is appropriate for the Plan membership as a whole, and compared to other options available in the market. The Trustees monitor value for money and provide an updated statement regarding value for money each year.

The Trustees' focus is on maintaining value and identifying if further developments can be made.

Core financial transactions

The Trustees are required to report on the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the DC Section of the Plan;
- transferring assets relating to members into and out of the DC Section of the Plan;
- transferring assets between different investments within the DC Section of the Plan; and
- making payments from the DC Section of the Plan to, or on behalf of, members.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the administrator. Our administration service provider is Conduent HR Services.

This administration service provided includes key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

CHAIRMANS ANNUAL GOVERNANCE STATEMENT
For the year ended 30th September 2017

In order to monitor this service the Trustees receive quarterly reports confirming the payment and allocation of contributions. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

The Plan auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

The administrators prepare a report (AAF 01/06) setting out their internal controls in respect of pensions administration which is independently audited.

I am pleased to report that in the last Plan year there have been no material administration service issues which need to be reported here by the Trustees. The Trustees are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, continue to be dealt with properly.

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Plan's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions, trusts and the principles relevant to investment to be able to run the Plan effectively. The Trustees take their training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

The Trustees selected by the Company are chosen for their appropriate skills, expertise and experience.

We take our training and development responsibilities seriously and keep a record of the training completed by each Trustee. During the Plan year, the Trustees have met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for trustee knowledge and understanding).

During the Plan year the following training and development activities have taken place:

- The training log was reviewed at each full Trustee meeting to identify any gaps in the knowledge and understanding across the board as a whole.
- Following appointment each Trustee was required to complete the Pensions Regulator's on-line trustee toolkit within a reasonable time scale.
- The Trustees received "on-the-job" training. For any new or complex topics the Trustees professional advisers provided training.
- Following the issue by the Pensions Regulator in July 2016 of the new code of practice for trustees of pension schemes providing money purchase benefits (the DC code), the Trustees have assessed the DC Section of the Plan against the standards set out in the DC code and related guides and are progressing with an action plan to ensure that we can demonstrate that we are offering a quality scheme.

As a result of the training activities which have been completed by members of the Trustee Board, individually and collectively, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enables us to properly exercise our functions as Trustees.

CHAIRMANS ANNUAL GOVERNANCE STATEMENT

For the year ended 30th September 2017

Signed for and on behalf of the Trustees of the Konica Minolta Business Solutions (UK) Pension Plan by Eric Green, Chair of Trustees

....

Date ...26th March 2018...