**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

## Defined Contribution (DC) Section and Additional Voluntary Contribution (AVC) arrangements
## Annual governance statement by the Chair of Trustees for the year ending 30 September 2018

### Introduction

Governance standards apply to defined contribution pension arrangements like the defined contribution section of our pension scheme. 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. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and we meet regularly to monitor the controls and processes in place in connection with the DC Section's investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the DC Section is run effectively. 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. We take professional advice from regulated investment advisers.

**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 is for members who do not wish to continually review the investments they hold and do not want to individually select the funds in which their contributions are invested. There are three different Lifestyle options available, Drawdown, Cash and Annuity, and the choice will depend on how a member thinks they will take their benefits when they retire.

*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 Drawdown 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 Drawdown Lifestyle investment strategy.

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

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 Trustees' 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. The Trustees also recognise that there are various investment and operational risks, and give qualitative and quantitative considerations to such risks.

The default 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 chosen retirement age and aims to invest in the most appropriate assets as members' needs change.

The default arrangement's objective is to target higher returns whilst members are younger, through investing their Pension Account in a diversified fund (this fund consists of a broad spread of asset classes and is intended to achieve strong returns over the longer term but with less volatility than a higher-risk asset class such as equities). As retirement age is approached, part of the Pension Account assets is switched to cash (to provide greater stability to capital accumulated as members' near their target retirement age).

Contributions are initially invested 100% in the Diversified Fund. 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 at the chosen retirement date the Pension Account will be invested 75% in the diversified fund and 25% in the cash fund. Switches between the investment funds are made on an annual basis.

The default 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, at least once every three years, and take into account the needs of the Plan membership.

During the year the Trustees completed a detailed review of the investment strategy of the DC Section.

When setting the current investment strategy, the Trustees considered the membership profile of the DC Section of the Plan, the risk profile and the number of investment funds that should be 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.

The next formal review of the investment strategy of the DC Section is planned to be carried out in 2020/21.

The Trustees review the performance of the Plan's funds on a quarterly basis. This includes receiving investment performance reports, and receiving investment advice, from the Trustees' investment adviser.

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

The diversified growth investment fund is benchmarked against equity index returns. It is expected that, over the long term investment returns will be similar to returns on equities, but significant levels of over and underperformance are expected over shorter time periods. Over the last twelve months, in a bull equity market, the diversified growth fund underperformed the equity benchmark by 8.9%. However, over the three months to 31 December 2018, when equity returns were negative, the diversified growth fund outperformed the benchmark by 2.4%. Over the three years to 30 September 2018 the diversified growth fund achieved investment returns of 11.2% pa. The default arrangement therefore remains consistent with the aims and objectives of the statement of investment principles.

## Charges and transaction costs paid by members

The Trustees are required to explain the charges and transaction costs (i.e. the costs of buying and selling investments in the DC Section of the Plan that are paid by members rather than the Company).

We confirm that there was no information about costs or charges that could not be obtained.

As well as meeting the general running costs of the Plan, the Company meets the members' record keeping costs and most benefit settlement costs. The Company also make a fixed contribution in respect of financial advice provided by Buck to members who wish to investigate purchasing an annuity outside of the Plan on retirement.

Currently, the majority of 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 fees are clearly communicated to members in the investment note "Your Investment Choices" issued with the annual benefit statements.

As at 30 September 2018, the average annual investment charge for the default investment arrangement for members more than seven years from retirement was expected to average no more than 0.3% pa. 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 investment funds during the last Plan year are shown overleaf.

Charges, such as the Annual Management Charge ("AMC" – the annual fee charged by the investment manager for investing in a fund), as well as additional expenses together comprise the Total Expense Ratio (TER), charged by the Investment Manager.

The TER information is normally readily available as these charges are explicit and are deducted as a percentage of members' funds.

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018.

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

The transaction costs shown below are calculated using the standardised method set by the Financial Conduct Authority.

As defined by the Financial Conduct Authority, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time of the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'. This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else.

The transaction costs calculated by the providers, using a method prescribed by the Regulator, has resulted in negative transaction costs (i.e. a profit) for most funds held by members during the year.

| Investment Fund | Total Expense Ratio (TER) | Transaction costs during period 1/10/2017 – 30/09/2018 |
|---|---|---|
| UK Equity Index Fund | 0.13% | -0.02% |
| Global Equity (60:40) Index Fund | 0.18% | -0.01% |
| Global Equity (50:50) Index Fund | 0.18% | 0.00% |
| World (ex UK) Equity Index Fund | 0.22% | 0.00% |
| Diversified Fund | 0.33% | -0.06% |
| Managed Property Fund | 1.13% | -0.02% |
| Pre-Retirement Fund | 0.15% | -0.01% |
| AAA-AA Fixed Interest Over 15 Year Fund | 0.15% | -0.09% |
| AAA-AA-A Corporate Bond Over 15 Year Index Fund | 0.15% | -0.02% |
| Over 15 Year Gilts Index Fund | 0.10% | -0.03% |
| Over 5 Year Index-Linked Gilts Index Fund | 0.10% | 0.01% |
| Cash Fund | 0.13% | 0.00% |

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

We have prepared the following illustrative example of the cumulative effect over time of the application of the charges and costs on the value of a member's benefits.

| Projected pension savings/pot in today's money | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Default fund | | UK Equity Index | | Property | | Pre-Retirement | |
| Age | Before charges | After all charges + costs deducted | Before charges | After all charges + costs deducted | Before charges | After all charges + costs deducted | Before charges | After all charges + costs deducted |
| 25 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| 26 | 34,912 | 34,828 | 35,269 | 35,234 | 34,984 | 34,637 | 34,153 | 34,109 |
| 28 | 44,955 | 44,660 | 46,218 | 46,095 | 45,208 | 43,997 | 42,347 | 42,200 |
| 30 | 55,296 | 54,731 | 57,740 | 57,500 | 55,782 | 53,473 | 50,394 | 50,124 |
| 35 | 82,511 | 80,944 | 89,257 | 88,581 | 83,827 | 77,677 | 69,889 | 69,229 |
| 40 | 111,790 | 108,885 | 125,064 | 123,709 | 114,335 | 102,633 | 88,525 | 87,366 |
| 45 | 143,291 | 138,504 | 165,746 | 163,410 | 147,522 | 128,366 | 106,339 | 104,584 |
| 50 | 177,181 | 169,959 | 211,965 | 208,280 | 183,623 | 154,899 | 123,368 | 120,391 |
| 55 | 213,643 | 203,363 | 264,476 | 258,992 | 222,894 | 182,258 | 139,646 | 136,449 |
| 60 | 251,817 | 237,886 | 324,135 | 316,307 | 265,613 | 210,468 | 155,207 | 151,181 |
| 65 | 270,764 | 254,730 | 391,915 | 381,084 | 312,084 | 239,556 | 170,082 | 165,168 |

**Notes**

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £30,000.
3. Inflation is assumed to be 2.5% each year.
4. Contributions are assumed from age 25 to 65 and increase in line with assumed earnings inflation of 2.5% each year, starting salary is assumed to be £45,000.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rate for each fund are as follows:
   Default fund: 1.51% pa above inflation for the diversified growth fund and 1.55% pa below inflation for the cash fund.
   UK Equity Index: 2.65% pa above inflation
   Property: 1.74% pa above inflation
   Pre-Retirement: 0.92% pa below inflation

We have taken account of the statutory guidance issued by the Department of Work and Pensions in preparing this section of our statement.

## Good value for members

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.

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 the benefits offered by the Plan's DC Section represent good value for members when this is compared to other options available in the market.

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 the statutory guidance.

We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members. The Trustees believe that the charges are reasonable, that the funds have performed satisfactorily and that the fund managers are providing an acceptable level of service in relation to the fees charged.

In undertaking the assessment the Trustees considered:

- The benefits of membership (contribution structure, administration services, member support, governance and member communications).
- Investment arrangements.
- Charges applied to members.

The opinion of the Trustees is that the DC Section of the Plan represents good value for money for members. The Trustees' focus, therefore, is on maintaining that value and identifying if further developments can be made.

Members of the Defined Benefit Section of the Plan, who have historically paid additional voluntary contributions (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.

## 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 our administration service provider Buck.

There is a service level agreement in place between the Trustees and Buck which provides for Buck to ensure accurate and timely processing of the core financial transactions for which it is responsible. Buck is required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients in accordance with the Plan's Trust Deed and Rules and overriding legislation.

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

In order to monitor this service the Trustees receive quarterly reports confirming the payment and allocation of contributions... The Trustees monitor transactions made via the Trustees' bank account on a regular basis.

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.

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

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

I am pleased that in the last Plan year there have been no material administration service issues which need to be reported here by the Trustees.

Overall, the Trustees are confident that the processes and controls in place with the administration service provider are robust and will ensure that the financial transactions which are important to members are 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 and trusts and the principles relevant to funding and investment to be able to run the Plan effectively.

The Trustees meet all the knowledge and understanding requirements and understand the Plan and its documents. The Trustees are aware that they must have a working knowledge of the Trust Deed and Rules of the Plan, the statement of investment principles and the documents setting out the Trustees current policies. They are also aware that they must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustees do this by regularly reviewing the relevant Plan documents via the Plan's online portal and during the Plan year have sought advice from the Plan's legal advisers on the powers of the Trustees and Company under the Trust Deed and Rules.

We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board.

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

- The training log was reviewed at each Trustee's meeting.
- Following appointment, a new Trustee was required to complete the Pensions Regulator's on-line trustee toolkit. The toolkit was completed within a reasonable time scale.
- The Trustees received "on-the-job" training. This means that as new topics arise professional advisers attending the Trustee meetings will provide training so that the Trustees may engage in an informed manner. Items over the year included the DC Code of Practice, actuarial assumptions for the annual benefit statements (and the actuarial valuation of the DB Section of the Plan), reviewing the investment strategy of the DC Section (and DB Section) of the Plan and GDPR.
- 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 of Practice), the Trustees have assessed the DC Section of the Plan against the standards set out in the DC Code of Practice and related guides and have made significant progress towards ensuring that we can demonstrate that we are offering a quality scheme.

**CHAIRMANS ANNUAL GOVERNANCE STATEMENT**
**For the year ended 30 September 2018**

Relevant advisers are in attendance at meetings and in frequent contact with the Trustee Board to provide information, either specific to the Plan or in respect of pensions or trust law.

As a result of the training activities which have been completed by 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.

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

..............................................................

Date 23rd April 2019