

THE BERKELEY GROUP PLC STAFF BENEFITS PLAN

YEAR ENDED 30 APRIL 2019

APPENDIX

THE CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE

1 MAY 2018 – 30 APRIL 2019

This statement has been prepared by the Trustee of the Berkeley Group PLC Staff Benefits Plan ("the Plan") in accordance with Regulation 23 of the Occupational Pension Plans (Plan Administration) Regulations ("the Administration Regulations") 1996, as amended by subsequent legislation. It describes how the Trustee has met the governance standards that apply to occupational pension plans that provide money purchase benefits between 1 May 2018 and 30 April 2019 (the "Scheme Year").

General

The Plan is predominantly a defined benefit pension scheme. A relatively small number of Plan members have money purchase benefits in the Plan. The money purchase benefits fall into two categories: additional voluntary contributions (AVCs) and money purchase benefits which were former protected rights when the Plan was contracted-out of the State pension on a DC basis ("Other Money Purchase Benefits").

The Plan's AVC arrangements have been closed to new members since 1 April 2002. The existing contributors at that time were permitted to continue making contributions so long as they remained active members of the Plan, until the Plan then closed to accrual on 1 April 2007. Plan Members' AVCs are currently invested in the following funds:

- Standard Life Managed Fund
- L&G Multi-Asset Fund
- L&G Global Equity Fixed Weight 50:50 Index Fund
- L&G Over 5 Year Index-Linked Gilts Index Fund
- L&G Pre-Retirement Fund

Plan members' Other Money Purchase Benefits are invested in line with the Plan's DB assets. They are not invested on a separately identifiable basis. Instead, the Plan uses a proxy for measuring investment returns on members' Other Money Purchase Benefits. The proxy is the L&G Multi-Asset Fund.

This statement contains information about each of the AVC funds listed above and the L&G Multi-Asset Fund.

Default Arrangement and Review

The Plan does not have a default arrangement as defined in the Administration Regulations. The Plan is not used as a qualifying scheme for auto-enrolment purposes, and is not therefore required to provide a default fund.

As the Plan does not have a default arrangement, some of the requirements in the Administration Regulations do not apply. Specifically,

- a Statement of Investment Principles has not been provided with this statement;
- the Trustee has not conducted a review of the strategy and performance of the default arrangement during the Scheme Year or in any other year; and

Processing Financial Transactions

Core financial transactions relate to both AVCs and Other Money Purchase Benefits. Core financial transactions include (but are not limited to):

- investment of contributions in the Plan - N/A
- transfers of assets relating to members into and out of the Plan - N/A
- transfers of assets relating to members between different investments within the Plan
- payments from the Plan to, or in respect of, members.

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During the Plan Year, the Trustee secured that these core financial transactions were processed promptly and accurately by requiring the Plan's administrator to comply with a service level agreement ("SLA") which covers the accuracy and timeliness of all core financial transactions and by regularly monitoring the administrator's performance against the SLA. This monitoring process includes administration reporting at each Trustee meeting against the agreed SLA. Any delays or issues relating to core financial transactions would be raised with the Trustee on an ad hoc basis by the Plan's administrator. No such delays or issues occurred during the Plan Year.

Charges and Transaction Costs

In accordance with regulation 25(1)(a) of the Administration Regulations, the Trustee calculated the "charges" and, so far as they were able to do so, the "transaction costs", borne by Plan members during the Plan Year. The Trustee has calculated the charges and transaction costs for each of the funds in which AVCs are invested and the proxy for measuring investment returns on members' money purchase benefits, the L&G Multi-Asset Fund

For these purposes, "charges" means fund charges other than transaction costs, such as the day-to-day management of investments

Transaction costs are those incurred as a result of the buying, selling, lending or borrowing of investments.

The Trustee has taken account of statutory guidance when preparing this section of the report.

Transaction costs have been provided by the Plan's investment manager and they are calculated using slippage methodology. That is, the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed at (as typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

Additional Voluntary Contributions (AVCs)

Details of the Total Expense Ratio (TERs) payable for each of the funds in which AVCs are currently invested and transaction costs are shown below.

Fund	TER (% p.a.)*	Transaction Cost (% p.a.)*
Standard Life Managed Fund	0.525	0.121
L&G Multi-Asset Fund	0.255	0.014
L&G Global Equity Fixed Weight 50:50 Index Fund	0.183	-0.007
L&G Over 5 Year Index-Linked Gilts Index Fund	0.100	0.031
L&G Pre-Retirement Fund	0.150	0.022

Other Money Purchase Benefits

Details of the Total Expense Ratio (TERs) payable for the L&G Multi-Asset Fund and transaction costs are shown below.

Fund	TER (% p.a.)*	Transaction Cost (% p.a.)*
L&G Multi-Asset Fund	0.255	0.014

Source: L&G

*Figures shown are for the period 01/04/2018 to 31/03/2019

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Value for Members

Under regulation 25(1)(b) of the Administration Regulations, the Trustee is required to assess the extent to which the charges and transaction costs set out above represent good value for members. The Trustee has undertaken an assessment which is proportionate to the nature of the money purchase arrangements in the Plan.

The Trustee considered a range of factors, including: quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds.

In terms of cost sharing between members and the employers: members pay investment-related charges only (i.e. the charges set out above) and the participating employers pay for all other costs and charges incurred by the Plan.

On the basis of their assessment, the Trustee believes that the members of the Plan are receiving good value for money. However, they also recognise the limitations of the current money purchase arrangements in the Plan and have been considering how best to address these.

For a number of years, the Trustee has been taking advice about making changes to the money purchase arrangements in the Plan. The Trustee is conscious that the Other Money Purchase Benefits in the Plan represent a very small proportion of the total Plan assets. Only a relatively small number of members have Other Money Purchase Benefits in the Plan, and the average pot size for those members is less than £3,000.

In this context, the Trustee concluded that there is limited scope to make improvements to the arrangements for Other Money Purchase Benefits within the Plan. This would not be proportionate given the time/cost required and the nature of the membership/benefits.

The Trustee considers that members could have more opportunities in terms of investment and decumulation in a pension arrangement with a greater focus on money purchase benefits. They have therefore instructed Mercer to commence work on a discontinuance project to transfer the Other Money Purchase Benefits out of the Plan to a more suitable arrangement.

Work is underway to identify a suitable arrangement, and the Trustee expects that the discontinuance project will be completed within the next scheme year i.e. by 30 April 2020. It was agreed that no changes would be made to the Plan's money purchase arrangements in the interim, on the basis that the discontinuance project would be completed in the short term.

Effect of Costs and Charges

In accordance with regulation 23(1)(ca), on the next page we have provided an illustrative example of the compounding effect of costs and charges on the value of an average member's money purchase benefits in the Plan.

We have taken account of statutory guidance when preparing this section of the statement. More information about the assumptions used in preparing the illustrative example is included on the following page.

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Illustrations for an “Average” member								
	LGIM Multi-Asset Fund (Proxy Strategy)		L&G Global Equity Fixed Weight 50:50 Index Fund <i>(highest expected return fund)</i>		L&G Over 5 Year Index-Linked Gilts Index Fund <i>(cheapest and lowest expected return fund)</i>		Standard Life Managed Fund <i>(most expensive fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£2,552	£2,546	£2,586	£2,581	£2,465	£2,462	£2,552	£2,536
3	£2,683	£2,663	£2,792	£2,776	£2,417	£2,408	£2,683	£2,633
5	£2,821	£2,786	£3,014	£2,986	£2,370	£2,355	£2,821	£2,734
7	£2,966	£2,914	£3,254	£3,212	£2,324	£2,303	£2,966	£2,839
10 (retirement)	£3,198	£3,118	£3,650	£3,583	£2,257	£2,228	£3,198	£3,004
Total Fees	£71		£57		£30		£173	
Illustrations for a “Young” member								
	LGIM Multi-Asset Fund (Proxy Strategy)		L&G Global Equity Fixed Weight 50:50 Index Fund <i>(highest expected return fund)</i>		L&G Over 5 Year Index-Linked Gilts Index Fund <i>(cheapest and lowest expected return fund)</i>		Standard Life Managed Fund <i>(most expensive fund)</i>	
Years from now	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£1,481	£1,477	£1,500	£1,498	£1,430	£1,428	£1,481	£1,471
3	£1,557	£1,545	£1,620	£1,611	£1,402	£1,397	£1,557	£1,528
5	£1,637	£1,616	£1,749	£1,733	£1,375	£1,366	£1,637	£1,586
10	£1,855	£1,809	£2,118	£2,079	£1,309	£1,293	£1,855	£1,743
15	£2,103	£2,025	£2,564	£2,494	£1,247	£1,223	£2,103	£1,915
19 (retirement)	£2,324	£2,216	£2,989	£2,885	£1,199	£1,170	£2,324	£2,064
Total Fees	£87		£75		£31		£209	

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It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" and "Younger" members' pots at retirement would be £1,944 and £903 respectively in today's money.

Assumptions

The illustrative example on the previous page is based on an "average" and "young" member of the Plan based on the Plan's membership data. We have assumed that the member's benefits remain invested in the same fund until Plan Retirement Age (defined below).

The monetary values are presented in real terms, i.e. in today's money. This is intended to help members have a better understanding of what their benefits could buy in today's money, if they invested in the funds as shown.

The total fee figure is lower than the difference between the pot size before and after fees. The total fee reflects what has actually been taken from the member's benefits to pay for the management of assets and other expenses, whereas the difference between before and after charges pot values also reflects the effect of compounding.

Age	
<ul style="list-style-type: none"> "Average" member "Young" member 	<p>55 (the average age of the Plan's membership)</p> <p>46 (the average age of the youngest 10% of members)</p>
Plan Retirement Age	65
Starting Pot Size	
<ul style="list-style-type: none"> "Average" member "Young" member 	<p>£2,489 (the median pot size of the Plan's membership)</p> <p>£1,444 (the median pot size for the youngest 10% of members)</p>
Inflation	2.5% p.a.
Expected future nominal returns on investment:	
<ul style="list-style-type: none"> L&G Multi-Asset (formerly Consensus) Fund L&G Global Equity Fixed Weight 50:50 Index Fund L&G Over 5 Year Index-Linked Gilts Index Fund Standard Life Managed Fund 	<p>2.6% above inflation</p> <p>4.0% above inflation</p> <p>1.0% below inflation</p> <p>2.6% above inflation</p>

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Trustee Knowledge and Understanding

The Trustee directors' own knowledge and understanding, together with the advice which is available to them, enables them to properly exercise their functions as trustees of the Plan. The Trustees receive advice from professional advisors regularly to ensure that they run the Plan and exercise their functions properly and to improve and reinforce their knowledge and understanding.

In particular, during the Plan Year, the Trustee directors have met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for knowledge and understanding) by undertaking relevant training. The comments in this section relate to the Trustee directors in dealing with the whole Plan and are not restricted to the money purchase arrangements. For example, in the Plan Year, the Trustee directors have received training on GMP equalisation, discharging small DC pot liabilities, responsible investments and general pensions issues.

The Trustee has put in place arrangements for ensuring that each Trustee director takes personal responsibility for keeping up-to-date with relevant developments. The Trustee directors review and discuss their training needs at trustee meetings and arrange for training to be made available to individual Trustee directors or to the Trustee body as appropriate.

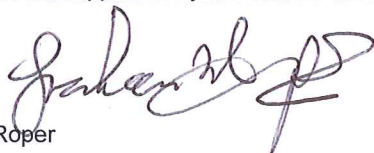
All of the current Trustee directors have completed or are working through the Pension Regulator's Trustee Toolkit. As part of the induction process for new Trustee directors, they are asked to complete Toolkit before or as soon as possible after appointment. All the Trustee directors are also expected to familiarise themselves with the Plan's trust deed and rules and any other document regarding policy for the time being adopted by the Trustee relating to the administration of the Plan generally. Trustee directors review relevant parts of the Plan's trust deed and rules when deciding how to exercise their powers.

The Trustee receives advice from its professional advisors, including the actuary, the investment advisor, the legal advisor and the auditor. The Trustee considers that skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors. The Trustee also includes legislative updates and Trustee Knowledge and Understanding on the agenda for each trustee meeting, with the Plan's legal advisor attending one Trustee meeting per year to provide an update on relevant topics.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustee considers that it is enabled properly to exercise its functions as Trustee of the Plan.

The Trustee has established a Plan website <https://berkeleygroup.co.uk/about-us/staff-benefits-pension-plan>. As part of the discontinuance project the Trustee will consider how best to engage with Plan members about their Other Money Purchase Benefits.

This statement was approved by the Trustee directors and signed on their behalf by:



Mr Graham Roper
Chair of the Trustee

Date: 29 November 2019