

Statement from the Chairman of the Trustee on the Scheme's Governance Arrangements

Introduction

This statement relates to the governance arrangements in place for Xerox FundXtra (the "Scheme") for the year 1 April 2018 to 31 March 2019 (the "2018/19 Scheme Year") and sets out how the Scheme complies with the applicable governance standards set out in regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended).

The Trustee Directors recognise the importance of good governance and achieving good member outcomes and have a number of processes in place to help ensure that the Scheme is well run.

Wind up of the Scheme

Xerox Limited notified the Trustee that it intended to cease contributions to the Scheme with effect from 30 September 2017. Under the rules of the Scheme cessation of contributions triggers the winding-up of the Scheme. To enable it to complete preparatory work the Trustee decided to defer the formal start of the winding up process until 1 May 2018.

The Trustee used the services of Target Professional Services Limited to trace and validate members' addresses.

Throughout the winding-up process Buck Consultants (Administration & Investment) Limited provided the Trustee with specialist pensions, communication and investment advice. From a long list of 8 potential buy-out providers, Buck produced a short list of 3 providers who were considered by the Trustee's Administration and Communications Committee. After a further "value for money" assessment Legal and General were chosen. Legal and General have a financial strength rating from Standard and Poor's of AA- and a rating from Moody's of Aa3. Following completion of the winding-up the Scheme has no liabilities; no Scheme members and no assets.

The key steps taken to secure Scheme members' benefits elsewhere in the wind-up process were as follows:

| Key Steps To Scheme Winding-up Process | |
|---|--|
| 22 August 2017 | Xerox Limited notified the Trustee of its intention to terminate liability to pay contributions after 30 September 2017 |
| 18 October 2017 | The Trustee notified Xerox Limited that it had decided to use its powers under the Scheme Rules to defer the start of wind-up process until 1 May 2018 to give it time to complete a number of preparatory actions |
| 11 January 2018 | The Trustee selected Legal and General as the buy-out policy provider |
| 1 May 2018 | Initial notice under Section 27 of the Trustee Act 1925 published by the Trustee in the London Gazette and a number of local newspapers |
| 1 May 2018 | The Trustee notified members that the Scheme is being wound up and provided an indicative timetable and information on the default option for securing member benefits and the alternative option(s). |
| 31 July 2018 | Deadline for members to notify the Trustee if they are interested in an alternative option(s) |
| 30 September 2018 | Deadline for members to complete documentation if they want to proceed with an alternative option for securing their benefits |
| 30 November 2018 | Final notice under Section 27 of the Trustee Act 1925 published in the London Gazette and the Times |
| December 2018 | Members' benefits secured under the default option, a buy-out pension policy with Legal & General Assurance Company |
| January to March 2019 | If selected by the Member, benefits secured under an alternative option (either transfer to a pension arrangement of the members' own choice; early retirement or a winding up lump sum) |
| April 2019 | Wind-up to be completed |

Default investment fund

Some pension schemes have a “default investment fund” that members’ funds are invested in if they do not tell the trustees how they would like their pension savings to be invested or if certain other conditions are present. Special governance standards apply to such default investment funds.

However, having taken legal advice, the Trustee Directors can confirm that the Scheme does not have a default investment fund. This is because the conditions for an investment fund or strategy to be classified as a default investment fund are not present and have not been present at any time since the current governance requirements were introduced into law. In particular, the Scheme required all members who joined the Scheme from 1996 onwards to make an investment choice and it was only used as a qualifying scheme for automatic enrolment purposes for members who were already members of the Scheme before the current governance requirements were introduced into law.

As a result of the analysis that the Scheme does not have a default investment fund, the special governance standards relating to the preparation and regular review of a statement of investment principles specifically covering this default do not apply to the Scheme. The Trustee does regularly review investment suitability and performance, and this has been considered in relation to the buy-out policy with Legal & General.

Although the Scheme does not have a default investment fund, a significant proportion of members were invested in a lifestyle strategy (details of which are set out under the ‘Charges and transaction costs paid by members’ section of this statement.

Administration

An important part of the Scheme’s administration is the speed and accuracy of processing financial transactions. These include (but are not limited to) investing contributions paid into the Scheme, transferring assets between different investment funds within the Scheme and making payments from the Scheme to or on behalf of members (“core financial transactions”). The Trustee Directors must ensure that the core financial transactions are processed promptly and accurately.

The Trustee Directors have agreed minimum service standards with the Scheme’s administrators for the prompt processing of core financial transactions and their accuracy. The Administrator has processes in place to enable it to meet the agreed service standards relating to the processing of core financial transactions. These include appropriate peer review processes, monitoring of the Scheme bank account, monthly reconciliation of the investments held in respect of each member and, while contributions were still being received into the Scheme, investing contributions before the end of the month to which the contributions relate.

Prior to the start of the winding-up process, the Trustee Directors received quarterly reports from the Scheme’s administrators setting out the dates contributions were received/invested and how the administrator has performed against the agreed minimum service standards for processing financial transactions. These reports were reviewed with the Administrator at the Trustee Directors’ regular meetings.

Since the start of the wind-up process, the Trustee Directors have been working very closely with the Scheme’s Administrator and received monthly reports on the progress of the winding-up process. Our administrators also maintained their procedures for the prompt and accurate processing of core financial transactions.

These measures have helped the Trustee Directors to assess how well the core financial transactions are carried out. Any significant issues are investigated thoroughly and if necessary action is taken to make improvements and correct any errors as quickly as possible.

The quarterly administration reports and updates received since the start of the wind-up process have raised no concerns with prompt processing and accuracy of those transactions. Payments of funds as a one off taxed lump sum, known as an “Uncrystallised Funds Pension Lump Sum (UFPLS)” and Winding-Up Lump-Sums (WULS) must be made and taxed through payroll. As the payroll is run monthly it inevitably means that payment of UFPLS and WULS take longer to process and the Scheme’s Administrator ensures that members are fully aware of the likely timescale to make payment.

Charges and transaction costs paid by members

Details of the investment-related charges that are borne by members are set out below and are expressed as a percentage of the value of the member's fund.

| Investment manager | Investment fund | Annual Management Charge (p.a.) | Additional Expenses Transaction costs (p.a.) |
|--|---|---------------------------------|--|
| Aegon UK plc | Active Global Equity Fund | 0.35% | 0.02% |
| | Passive Global Equity | 0.15% | 0.01% |
| | Passive Government Bond Fund | 0.10% | 0% |
| | Passive Inflation-Linked Government Bond Fund | 0.10% | 0% |
| | Passive Corporate Bond Fund | 0.15% | 0.01% |
| | Cash Fund | 0.13% ** | 0% |
| | Passive Lifestyle Investment Strategy | 0.10% to 0.15% | Up to 0.02% |
| Fidelity Life Insurance Limited | Active Multi Asset Growth Fund | 0.50% | 0.05% |
| | Active Global Equity Fund | 0.50% | 0.134% |
| Scottish Widows Investment Partnership Limited | Scottish Widows' Unitised With-Profits Fund | 0.875% | None |

As no new contributions to the Scheme have been made since 30 September 2017, these investment funds have not been available to new contributions at any time during the 2018/19 Scheme Year.

** there is no fee applicable for the Cash Fund however the underlying pooled fund that the Cash Fund invests in does include a fee of 0.13% per annum which may be subject to change from time to time.

Given the wind up of the Scheme, the Trustee has not sought details of the transaction costs (i.e. the cost of buying and selling investments) incurred by each investment fund. However, when transitioning assets to the buy-out policy, the Trustee has considered such transaction costs.

One of the options open to members in the Scheme during the 2018/19 Scheme Year was the Lifestyle Investment Strategy. For members more than 10 years from their normal retirement age, the Lifestyle Strategy is 100% invested in the Passive Global Equity Fund. For members less than 10 years from their normal retirement age the Lifestyle Strategy gradually moves their investment from the Passive Global Equity Fund to the Passive Inflation Linked Government Bond Fund and the Cash Fund, so that at normal retirement age 75% of their investment is in the Passive Inflation Linked Government Bond Fund and 25% is in the Cash Fund.

The ongoing charges applicable to the Lifestyle Strategy during the 2018/19 Scheme Year for members more than 10 years from normal retirement age was 0.16%. The range of ongoing charges applicable to the Lifestyle Strategy during the 2018/19 Scheme Year for members less than 10 years from retirement were between 0.11% and 0.16%.

Illustration of the cumulative effect of costs and charges on members' accounts

| Years invested | Fund choice | | | | | |
|----------------|----------------------------|---|---|---|---------------------|---|
| | Passive Global Equity Fund | | Passive Inflation-Linked Government Bond Fund | | Cash Fund | |
| | Before charges £ | After all charges & costs deducted £ | Before charges £ | After all charges & costs deducted £ | Before charges £ | After all charges & costs deducted £ |
| 0 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| 1 | 20,507 | 20,476 | 19,639 | 19,620 | 19,673 | 19,648 |
| 3 | 21,561 | 21,463 | 18,937 | 18,880 | 19,035 | 18,962 |
| 5 | 22,669 | 22,497 | 18,259 | 18,169 | 18,418 | 18,300 |
| 10 | 25,693 | 25,305 | 16,670 | 16,505 | 16,962 | 16,744 |
| 15 | 29,121 | 28,463 | 15,219 | 14,994 | 15,621 | 15,321 |
| 20 | 33,007 | 32,017 | 13,894 | 13,621 | 14,385 | 14,019 |
| 25 | 37,411 | 36,013 | 12,685 | 12,373 | 13,248 | 12,827 |
| 30 | 42,403 | 40,508 | 11,581 | 11,240 | 12,200 | 11,737 |
| 35 | 48,061 | 45,565 | 10,572 | 10,211 | 11,235 | 10,739 |
| 40 | 54,473 | 51,253 | 9,652 | 9,276 | 10,347 | 9,826 |

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 £20,000
3. Inflation is assumed to be 2.5% each year
4. No allowance is made for any future contributions.
5. Values shown are estimated and are not guaranteed
6. The projected growth rate before expenses from each fund is as follows:

| | |
|--|-----------------------------|
| Passive Global Equity Fund: | 2.5% above inflation |
| Passive Inflation-Linked Government Bond Fund: | 1.8% <i>below</i> inflation |
| Cash Fund: | 1.6% <i>below</i> inflation |

Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustee Directors are required to consider the extent to which they represent good value for members when compared to other options on the market. The Trustee Directors have also considered the Regulator's Code of Practice on the governance and administration of occupational trust-based schemes providing money purchase benefits.

The costs related to the Scheme fall into two categories, those relating to managing the investment funds (investment cost as detailed above) and those relating to the administration of the Scheme. Scheme members bear all of the investment costs, whilst Xerox Limited bears all of the administration costs. With the exception of the Scottish Widows' Unitised With-Profits Fund (SW fund), the investment-related charges that are borne by members are:-

- Considerably lower than the DWP's maximum charge of 0.75% p.a. for default investment funds in schemes used to comply with auto enrolment legislation, and
- Comparable with those available under the National Employment Savings Trust (these charges are made up of two parts i.e. a 1.8% contribution charge which is applied to each contribution and an annual management charge (AMC) of 0.3% which is applied on the total value of a member's fund each year).

Members are offered a choice of lower cost passively managed investment funds and more expensive (but hopefully better performing over the long term) actively managed investment funds.

The Trustee Directors have in the past brought certain concerns regarding the SW fund to the attention of members, and as a result closed it to new contributions from 1 July 2005.

The Trustee Directors regularly measure the investment performance of these funds with the advice of our investment consultants. At the date of completing this Statement the latest investment performance available was for periods ended 31 December 2018. Over the period to 31 December 2018 the "passive" investment funds have delivered returns (net of fees) broadly in line with the benchmarks that they aim to track. The longer-term performance (i.e. over 5 years to 31 December 2018) of the Scheme's actively managed fund has shown slight under-performance relative to their benchmarks. This performance issue has been addressed by transitioning members to alternative funds within the buy-out policy with Legal & General.

The Trustee Directors consider the charges for the available funds offered reasonable value to members.

In assessing value in a wider sense, it is relevant to note that there have been many services enjoyed by Scheme members which Xerox Limited paid for. These included providing good quality regular communications, annual newsletters, comprehensive annual benefit statements, a pensions website (which was accessible by active and deferred members), and administration.

Trustee knowledge and understanding (TKU)

The law requires the Trustee Board to have appropriate knowledge and understanding of the law regarding pensions and trust principles relating to funding and investment and other matters in order to enable the Trustee Directors to properly exercise their duties. The Trustee Board must also have a working knowledge of the Scheme's governing documents and current policies and be able to demonstrate that they have the combined knowledge and understanding, together with the advice available to them, to enable them to properly exercise their functions as Trustee of the Scheme.

All newly appointed Trustee Directors have formal induction training with the Scheme Secretary within a month of being appointed to ensure that they are familiar with the Scheme's governing documents and the issues that are currently facing the Scheme. They are also required to complete the Pensions Regulator's Trustee Toolkit within 6 months of joining the Trustee Board.

On-going training and development is taken seriously and a record of the training completed by each member of the Trustee Board is maintained. The Trustee Directors' approach to meeting the TKU requirements includes:

- formal Trustee training, through external training courses/seminars;
- internal "just-in-time" training delivered by the Scheme's advisers in Trustee meetings relating to the matters being discussed or decided e.g. over the Scheme Year training was received on securing member benefits and scheme wind ups;
- receiving guidance and recommendations provided from the Scheme Secretary and Executive support;
- taking regular advice from their appointed professional advisers, including legal advisers, investment advisers and auditors; and
- circulating general updates from its advisers about pension matters.

The training record is reviewed annually to identify any gaps in the knowledge and understanding across the Board as a whole. This allows the Trustee Directors to work with their professional advisers to fill in any gaps. Prior to starting the winding-up process the Trustee Directors took advice from its legal advisers and the Scheme's Administrator.

In addition, the skills that new Trustee Directors can bring to the Trustee board are carefully considered when appointments are made. The Trustee board currently comprises 8 Trustee Directors who have a strong combined knowledge of investment, legal and risk management matters through their careers and professional qualifications. The Scheme's Independent Trustee is a professional trustee and so brings a higher level of technical knowledge and understanding of the law regarding pensions and trusts, principles relating to funding and investment to the Board.

Taking account of the formal induction training and on-going training taken individually and collectively as a Trustee Board, and the professional advice available to the Trustee Directors as described above, the Trustee Directors consider that the combined knowledge and understanding of the Trustee Board enables it to exercise properly its functions as the Trustee of the Scheme.

Signed for and on behalf of Xerox Pensions Limited

Peter Romaine
Chairman, Trustee Directors

25 April 2019

A copy of this Statement from the Chairman, which includes information on costs and transaction charges, is available on the Scheme's website at <https://www.xeroxpensions.co.uk/fx-actv.asp>. Click on the link to the document to read it. If you do not have access to the internet, please contact Buck, the Scheme's former administrator (email: xeroxpensions@buck.co.uk or phone 0330 123 9576) to request a hard copy.