

Chair's DC Governance Statement, covering the 12 months to 31 August 2019

1. Introduction

The Methodist Ministers' Pension Scheme (the "Scheme") is a defined benefit scheme which provides limited defined contribution ("DC") benefits in the form of a Long Service Award ("LSA") in respect of certain ministers' membership of the Methodist Ministers' Pension Scheme during the period 2003 to 2006. Governance requirements apply to schemes that hold DC benefits to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement (which is signed by the Chair of Trustee) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (including the default arrangement);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This Statement covers the governance requirements that apply to the DC benefits provided by the Scheme for the period from 31 August 2018 to 31 August 2019.

2. Investment options

The LSA is not used as a 'qualifying scheme' (as defined) for auto-enrolment. Following advice from the Scheme's legal advisor, Burges Salmon, it has been established that the LSA does not have a default arrangement as defined by legislation. The Trustee is not therefore required to provide a statement on the LSA's default investment strategy, or details of any review of the default strategy as part of this Statement.

Details of the Trustee's policies regarding the investment strategies can be found in the Scheme's 'Statement of Investment Principles' ("SIP"), which can be obtained from the Scheme's investment advisor, Lane Clark & Peacock LLP ("LCP").

The Scheme offers access to two lifestyle strategies (named the Default Lifestyle Strategy and The Alternative Lifestyle Strategy) for both the LSA and its AVC funds which are each comprised of five underlying 'Epworth' funds (see below) – as noted above these strategies do not meet the legal definition of a default arrangement for reporting purposes. In addition, the Scheme also has a legacy AVC With Profits arrangement which was offered to members who joined the Scheme before 2006. This is open to contributors who joined prior to 2006, but closed to new contributors. The Scheme's investments are managed by Epworth Investment Management (part of the Central Finance Board of the Methodist Church). These options have been selected based on the

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Trustee's understanding of the demographics of the Scheme's membership. The Trustee is responsible for investment governance, which includes setting and monitoring the investments.

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The LSA is invested in the same way as the Scheme's AVC funds. The Trustee reviews the AVC funds' investment performance (after charges) and their continued appropriateness for the membership annually. A full review of the AVC arrangements is carried out triennially. The last full review of the AVC arrangements was carried out on 15 May 2019. The review concluded that the underlying funds which make up the lifestyle strategies had delivered positive returns broadly in line with those of their respective benchmark returns over the 1, 3 and 5-year periods reviewed.

3. Requirements for processing core financial transactions

Processing core financial transactions (such as the investment of contributions, dealing with transfers in and out of the Scheme, and payments to members/beneficiaries) is carried out by the Methodist Church's in-house Pensions Team ("Pensions Team"), which is the Scheme's administrator.

The Pensions Team has confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately, for example:

- all work (including any financial transactions) are checked and / or monitored by senior Pensions Team staff members before being issued;
- regular training is provided to members of the Pensions Team to ensure that they are up to date with any key processes. For example, the Pensions Team has confirmed that training is carried out on an ongoing basis as tasks demand. The Church has an induction programme which is followed in addition to in-team training and development. Each member of staff is allocated a mentor who shadows their work and provides guidance. Regular meetings are held on a one-to-one basis to ensure work allocation is distributed evenly, hence productivity is efficiently and accurately delivered.
- In the event that any initial calculations need revision, these are identified at the peer review stage and are dealt with immediately before the transaction is completed. The Pensions Team have implemented a number of checklists to ensure each step relevant to that task is followed and each variation is considered, where relevant or not.

The Trustee receives bi-annual reports about the Pension Team's performance; any project work undertaken; compliance with Service Level Agreements (SLA ie breach reporting) and updates on key activities in respect of the period covered. The Trustee has 1-21 working days SLAs covering the accuracy and timeliness of all core financial transactions. The Pensions Team has confirmed that the majority of SLAs have substantially been met over the Scheme year.

Using information provided by the Pensions Team, which has been reviewed by the auditors, the Trustee is satisfied that over the period covered by this Statement:

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- There has been only **one** material administration error in relation to processing core financial transactions, which has been addressed. An investigation is underway with the view to rectify the error and compensate accordingly; and
- Otherwise, all core financial transactions have been processed promptly and accurately.

4. Member-borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement. These are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs, known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges exclude the administration costs since members incur an additional 1% charge on contributions to cover these costs.

The Trustee is also required to disclose transaction cost figures separately. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds and any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by Epworth Investment Management. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

4.1. Default arrangement

As mentioned above, following advice obtained from the Scheme's legal advisor, the Trustee can confirm that the LSA does not have a default arrangement as defined by legislation. The level of charges for each fund and the transaction costs over the period covered by this Statement are set out in the following table.

Fund charges and transaction costs

| Manager | Fund name | TER | Transaction costs |
|---------|---------------------------|-------|-------------------|
| | CFB UK Equity Fund | 0.58% | 0.17% |
| | CFB Overseas Fund | 0.73% | 0.05% |
| | CFB Corporate Bond Fund | 0.29% | 0.51% |
| | CFB Inflation Linked Fund | 0.11% | 0.15% |
| | CFB Deposit Fund | 0.24% | Nil |
| | CFB With Profits Fund | N/A | Nil |

Source: TERs and transaction costs have been supplied by the Pensions Team and Epworth Investment Management.

4.2. Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example Scheme member's pension savings.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member-borne fees (i.e. the TER) or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return, but after deducting member-borne fees and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the manager over the past year, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).
- The illustration is shown for the With Profits Fund since this is the fund with the most members invested in (open to contributors who joined prior to 2006, but closed to new contributors), as well as four of the funds in which the lifestyle strategies invest.
- The four funds shown in the illustration are:
 - The fund with the highest before costs expected return – **CFB UK Equity Fund**.
 - The fund with the lowest before costs expected return – **CFB Deposit Fund**.
 - The fund with highest annual member borne costs – **CFB Corporate Fund**.
 - The fund with lowest annual member borne costs – **CFB Inflation Linked Fund** (has the second lowest charges but has been used because the CFB Deposit Fund has been used in the lowest expected return illustration).

Projected pension pot in today's money

| Years Invested | With Profits Fund | | CFB UK Equity Fund | | CFB Deposit Fund | | CFB Corporate Bond | | CFB Inflation Linked Fund | |
|----------------|-------------------|-------------|--------------------|-------------|------------------|-------------|--------------------|-------------|---------------------------|-------------|
| | Before costs | After costs | Before costs | After costs | Before costs | After costs | Before costs | After costs | Before costs | After costs |
| 1 | £11,700 | £11,700 | £11,800 | £11,700 | £11,200 | £11,200 | £11,500 | £11,400 | £11,400 | £11,300 |
| 3 | £12,400 | £12,400 | £12,700 | £12,400 | £11,100 | £11,100 | £11,900 | £11,600 | £11,500 | £11,400 |
| 5 | £13,200 | £13,200 | £13,700 | £13,300 | £11,000 | £10,900 | £12,300 | £11,800 | £11,600 | £11,400 |
| 10 | £15,500 | £15,500 | £16,700 | £15,800 | £10,700 | £10,500 | £13,400 | £12,400 | £11,900 | £11,600 |
| 15 | £18,200 | £18,200 | £20,400 | £18,300 | £10,500 | £10,100 | £14,700 | £13,000 | £12,200 | £11,700 |
| 20 | £21,300 | £21,300 | £24,800 | £21,400 | £10,200 | £9,700 | £16,000 | £13,700 | £12,500 | £11,900 |
| 25 | £25,000 | £25,000 | £30,100 | £25,100 | £10,000 | £9,400 | £17,400 | £14,300 | £12,800 | £12,000 |
| 30 | £29,300 | £29,300 | £36,700 | £29,500 | £9,700 | £9,000 | £19,000 | £15,000 | £13,100 | £12,100 |

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being

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promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.

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- The starting pot size used for the calculation is £11,300, which is the median pot size (as per DWP guidance).
- The projection is for 30 years, being the approximate duration that the youngest scheme member (36) has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £24,900.
- Total contributions (employee plus employer) are assumed to be 0% of salary per year – the amounts vary; thus, it is difficult to calculate the correct median contribution rates and therefore the sensible approach is to use a 0% contribution rate for this illustration.
- The projected annual returns used are as follows:
 - With Profits Fund: 3.2% above inflation for the initial years and the same return will remain similar over time;
 - CFB UK Equity Fund 4.0% above inflation;
 - CFB Deposit Fund 0.5% below inflation;
 - CFB Corporate Fund 1.8% above inflation; and
 - CFB Inflation Linked Fund 0.5% above inflation.
- No allowance for active management has been made.
- Source of data: in-house Pensions team and Epworth Investment Management.

5. Value for members' assessment

The Trustee is required to assess the extent to which member-borne charges and transaction costs represent good value for members. There is no legal definition of 'good value' which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below.

The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in the high-level assessment carried out on 15 May 2019. This took account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits). The assessment included a review of the member-borne charges (including transaction costs where available), with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The Trustee's investment adviser has confirmed that the fund charges remain competitive for the types of fund available to members. The Trustee's assessment also included a review of the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds underlying the lifestyle strategies during the period covered by this statement have been consistent with their stated investment objectives.

The Trustee also considers the other benefits members receive from the Scheme, which include:

- the oversight and governance provided by the Trustee, which ensures the Scheme is compliant with relevant legislation. Regular meetings are held to monitor the Scheme and address any material issues that may impact members;
- the range of investment options and strategies;

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- the quality of communications delivered to members;
- an investment strategy that invests the Scheme's assets, where possible, according to a social, environmental and ethical stance consistent with the aims of the Methodist Church. Epworth Investment Management was appointed to achieve this aim. The Trustee believes that this stance is consistent with the views of the majority of the membership and will not be financially detrimental to the Scheme. The Scheme's ethical bias is consistent with the beliefs of the majority of the membership;
- the quality of support services such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards for the Scheme year.

As detailed in the earlier section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.

Overall, the Trustee believes that members of the Scheme are receiving good value for money for the charges and costs that they incur. The Trustee aims to improve this in future by taking the following steps:

- consider carrying out a more in-depth Value for Members assessment of the Scheme in order to assess the schemes against other schemes in the industry;
- consult the membership to establish whether there is an appetite for additional investment options; and
- continue to monitor the administration of the LSA and AVC benefits on an ongoing basis.

The Trustee believes the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches, and we expect this to lead to greater investment returns net of fees over time.

6. Trustee knowledge and understanding

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material. Separately, the Trustee also receives relevant quarterly legislative bulletins from its investment advisor, LCP, to

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help it keep abreast of updates in the DC industry. During the period covered by this Statement, the Trustee received relevant training on the following topics, relating to DC schemes:

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- Impact investing, setting investment strategies; SIP requirements and setting an ESG policy (14 June 2019); and
- Cyber Security (14 June 2019);

In addition, the Trustee is familiar with and has access to copies of the current Scheme governing documentation, including the Trust Deed & Rules (together with any amendments), Scheme policies and the SIP. The Trustee refers to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually (or as part of making any change to the Scheme's investments). The Trustee is aware of its responsibilities and undertakes ongoing training to ensure it remains up-to-date with pensions law and regulation. The Trustee also understands its powers as set out in the Scheme's Trust Deed & Rules. The Trustee believes it has 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 to fulfil their duties.

The Scheme has in place a structured induction process for new trustees. For example, newly enrolled Trustee's must complete TPR's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from the Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law) as part of their induction.

The Trustee undertakes regular training (typically every quarter) and the Trustee directors attend a Trustee training day in June each year. All training is recorded in the training register. A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. A questionnaire is used to carry out an annual evaluation of the Trustee's knowledge and to help to identify training needs. The Trustee also carries out an annual evaluation of the performance and effectiveness of the Trustee Board as a whole as measured against the objectives of the Scheme's business plan. Additionally, the Scheme has an appointed Independent Trustee, Capital Cranfield Pension Trustees Limited, (currently represented by Ingrid Kirby) as Chair of Trustee. She is an investment specialist with 30 years' experience. Ingrid has direct experience of managing funds and in-depth and diverse investment expertise for setting investment strategies. Ingrid has a collaborative leadership style which boosts the confidence of the Trustee Board and the effectiveness of its decision-making to achieve the best outcomes for members. There is also an Investment Committee, which oversees investment aspects of the Scheme. The Committee meets quarterly and receives relevant training from the Trustee's investment adviser, LCP. The Committee also monitors the investment performance of the funds in the Scheme.

Taking into account the knowledge and experience of the Trustee with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (eg

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7. Relevant multi-employer schemes

The Trustee has recently received legal advice confirming that the Scheme is a relevant multi-employer scheme within the meaning of Regulation 1 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Scheme Administration Regulations"), having previously been advised that the Scheme was a single employer scheme. Nevertheless, the Trustee complies with the additional requirements for relevant multi-employer schemes, set out in Regulation 26 of the Scheme Administration Regulations.

The Trustee Board has ten Trustee Directors and in the 12 month period ending on 31 August 2019, seven of the ten Trustee Directors (including the Chair) were non-affiliated being:

Stuart Bell
Andrew Paul
Michael Giles
Capital Cranfield Pension Trustees Limited (Chair)
Ruth Edmundson
John Illsley
Andrew Gibbs

None of the Trustee Directors are directors, managers, partners or employees of the Pensions Team (which provides administration services to the Scheme) or Epworth Investment Management (part of the Central Finance Board of the Methodist Church) which provides investment management services to the Scheme or any other Scheme service provider or any of their subsidiaries (nor have they held such positions in the five years prior to their appointment as Trustee Directors). None of the Trustee Directors have received any payment or benefit from the Pensions Team (or any other Scheme service provider) other than the payment received by Capital Cranfield Pension Trustees Limited for performing its role on the Trustee Board which is then recharged as an expense of the Scheme. During the last Scheme year, three Trustee directors were appointed following an open and transparent process. Ruth Edmundson and John Illsley were appointed following a member nominated director nomination and selection process. Andrew Gibbs was appointed following an advertisement placed on the website of the Methodist Church and in the Methodist Recorder seeking to recruit suitable candidates.

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Ignid A King
on behalf of
CAPITAL CLANFIELD PENSION TRUSTEES ^{WTD} Date: 17 February 2020

Signed on behalf of the Trustee by the Chair of Trustee of the Methodist Ministers Pension Scheme

