

Salvus Master Trust Governance Statement Year Ending 31st December 2018

Introduction

This is the annual statement from the Trustees regarding the governance of the Salvus Master Trust (“the Scheme”) to demonstrate how the Scheme has complied with the required governance standards. The Trustees have prepared the Statement in accordance with the requirements of the Occupational Pension Schemes (Scheme Administration) Regulation 2016. A copy of the Statement will be added to the Salvus website <https://www.salvustrust.com>.

The Statement relates to the calendar year 1 January 2018 to 31 December 2018. The statement includes details of developments after this time where the Trustees feel that they will help in describing the ongoing governance of the Scheme.

Significant developments during the year

This has been a very busy year, with events that have impacted on the Scheme itself and on the master trust landscape as a whole.

The year set off with a changed line up on the governance team, with HR Trustees resigning following their merger with another firm. I’d like to thank Christina Bowyer for her tremendous contribution to the Trustee proceedings. A new Trustee was appointed: Andrew Blackman. Andrew is the Deputy Managing Director of Goddard Perry Consulting Limited and brings a wealth of pensions consulting knowledge to the role. His position in respect of the Sponsor of the Scheme could cause a conflict of interest, but all parties are very aware of this potential and have a robust plan to mitigate any risk that might arise over any issue. Set against this manageable risk is the high level of knowledge and experience that Andrew brings to the Board, and a vital insight into the strategic direction of the Sponsor.

The list of Trustees in the Report and Accounts shows a further change to the line-up following the resignation of Clark Benefit Consulting Limited on 30th November 2018 and the subsequent appointment of Abundzu Limited on 1st February 2019. While Abundzu’s appointment took place after the scope of this Statement, it is appropriate to refer to it here. Again, I’d like to thank Michael Clark of Clark Benefit Consulting for his leadership and support to the Trustees, and for setting a great example of how to chair the Board. Welcome, also, to Barry Parr of Abundzu. Barry brings a wealth of experience of acting as a Trustee, including for other master trusts, and I look forward to the future with confidence. (Note that a description of the way in which the requirement for the majority of the Trustees to be non-affiliated is met is provided later in this Statement).

April saw the completion of the task of merging the Complete Pension Trust master trust with Salvus. The transaction was performed quickly and with no disruption to the services provided to the participating employers or members of either Scheme. The project helped to prove that an orderly bulk transfer can be achieved in a relatively inexpensive and efficient manner, which augers well for any future transfers resulting from consolidation in the master trust universe.

Another project came to a head in May when the Scheme realised its plans to comply with the GDPR regulations that govern how member data is handled from 25th May 2018. The Trustees

and HS Admin, the administrator for the Scheme, have always treated members' data with care and we welcome the opportunity to demonstrate adherence to the new standards

Last year we described the project to correct the records of a number of members where there had been delays in investing their contributions. This situation had arisen due to the method by which employers used to be able to submit contributions and corresponding member data. I am pleased to confirm that the exercise, which was closely monitored by the Pensions Regulator (TPR), was completed within the stated timescale and the last compensating amendment to records was performed in July 2018.

It is important to note that no member suffered any loss as a result of this issue, with the Sponsor of the Scheme making up any shortfall due to market movements while the contributions were not invested. Also, the method by which employers submit member data and pension contributions has changed fundamentally since these events took place. With a few carefully monitored exceptions, all employers load their member earnings and contribution data on to a secure on-line portal. This data is automatically scrutinised and any inconsistencies or errors are notified to the employer. It is only once the data is corrected and successfully uploaded onto HS Admin's systems that the contributions can be collected by direct debit and automatically reconciled with the payments. The Trustees have a high degree of confidence that the current process eliminates the potential for the earlier problem to reoccur.

A further benefit of the data collection process is that HS Admin can monitor the compliance with the stringent time limits for paying member contributions. HS Admin can identify those employers who have not submitted data within required timescales and send reminders to prompt them and to offer them assistance. This reminder process eventually advises the employer that the Trustees will be obliged to write to the members and to TPR if they do not comply with their statutory obligations. This robust process has reduced the delay in paying contributions by a material amount, resulting in significantly reduced numbers of employers being reported to the Regulator and to the earlier investment of contributions for the members.

Although the auto enrolment duty has been rolled out now to all employers, the Scheme continues to increase in size, with the number of employers using Salvus as their preferred pension scheme growing from 3,074 to 3,476 by the end of the year. This translates into c62,000 members: a significant increase since the start of the year.

The assets of the Scheme have also increased significantly over the year, through a combination of regular monthly contributions, which increased in line with legislation in April 2018; the merger of the Complete Pension Trust mentioned earlier; individual transfers-in by members seeking to consolidate their pensions savings in a well-managed, low-cost Scheme; and the acceptance of further pension funds from schemes where the defined benefit element has been taken into the Pension Protection Fund (PPF). The total assets under management increased by over £60m to £144.5m by the end of December.

The attention of the Trustees has been dominated during 2018 by the need to prepare for the new authorisation regime introduced by TPR. TPR is required to be concerned as to the viability and sustainability of Master Trusts in order to best protect members and their savings. TPR seeks to ensure good standards of governance and oversight, and ultimately provide good value for money for members with security of their pension savings.

The DWP issued the Occupational Pension Schemes (Master Trusts) Regulations 2018 which set out the process by which TPR would assess each master trust and determine whether it meets the required standards of governance, security and value for members. A six-month window for submitting authorisation applications commenced on 1st October 2018.

The Sponsor, HS Admin and the Trustees were confident that the Scheme would satisfy the new standards, but the way in which the supporting evidence was to be provided resulted in a root and branch assessment of the processes and procedures, not only of the administration function, but also of the way in which the Trustees conduct their scrutiny.

The documentation of processes on a standardised basis has revealed that the administration and governance of the Scheme was already in good shape, but there is now a more robust regime for reviewing and, if necessary, revising how it is run. This will help the Trustees demonstrate that the interests of the members are being properly protected and the outcome for members optimised.

As a result of the change in the make-up of the Trustee Board, TPR allowed the Scheme an additional period of time to make their application. This has been submitted and, at the time of writing, is currently being assessed. This is of crucial importance to the Scheme as a decision by TPR that they are not confident that the Scheme is properly governed, or that the Sponsor is not sufficiently resourced, could lead to them insisting that the Scheme is wound up. One of the requirements of the authorisation application is to provide a wind-up plan to set out how an orderly transfer of members' funds to another arrangement would take place. Although we are confident that this will not be required and that authorisation will be granted, the Trustees can assure members that their collective experience in dealing with pension scheme mergers and wind-ups will enable them to perform this transition without detriment being suffered should it ever be necessary. I look forward, however, to being able to confirm that authorisation has been granted and that the Scheme continues to prosper!

Investment

The Scheme currently has two default arrangements in the main, contributory section, which are the Cautious Lifestyle and the Balanced Lifestyle. In our previous Statement we told you that the Trustees had performed a fundamental review of the investment strategy of the default arrangements, with the help of our investment advisers, River and Mercantile (R&M). This involved reviewing the strategy and performance of the two default arrangements in the main contributory section, in particular the extent to which returns were consistent with the arrangements' aims and objectives set out in the Scheme's Statement of Investment Principles. This took place during the first half of 2017 with the review concluding in a meeting, held on 21st July 2017. That meeting laid out the rationale for changing to a single default lifestyling strategy and established an intention to create an investment strategy that would target investment growth of 4% per annum above inflation (as measured by the Consumer Prices Index ("CPI")) for the period up to 20 years prior to target pension age of 65, and then gradually transition to a more cautious strategy of targeting CPI plus 2% per annum. When a member is ten years from 65, the investment strategy would gradually transition to target a cash holding of 25% of the fund.

This strategy should provide a typical member, participating for most of their working life, with a fund large enough to produce a reasonable replacement income in retirement. It will be achieved by having a carefully selected blend of funds that invest almost exclusively in index-linked equity funds (stocks and shares in companies in the UK and overseas) and fixed interest funds ('bonds' which are interest-bearing loans to large companies and governments).

The strategy of automatically transitioning to lower-risk funds as the members get closer to their target retirement age – commonly referred to as 'lifestyling' - means that members approaching retirement are less likely to be badly impacted by sudden falls in the markets with little time to recover. There can be no guarantees, however, and the Trustees are obliged to

balance the risk implicit in the chosen funds against the risk of inflation eroding members' funds in a 'low risk' strategy. It's all about balance and careful monitoring.

A further meeting took place on the 24th January 2018 which aimed to set out the route map for making these changes to the investment strategies. At this meeting R&M set out their recommendations for the actual investment funds that they would recommend for the default strategies, and in what proportion (referred to as the 'asset allocation').

The Trustees approved the proposals at that meeting but had to bear in mind the impact of the changes on the administration of the Scheme.

As you can see from the Charges and Transaction Costs section of this Statement, the Scheme currently has many different funds with different charging structures. This arrangement allowed Goddard Perry Consulting, the Sponsor of the Scheme, to offer different charging structures to different employers, depending on the size of their work force and other factors. A consequence of the way that the Scheme has been set up, however, is that any fundamental change to the investment strategy creates a great deal of structural work for the administrators. This work was suspended while the Scheme prepared for the new authorisation regime but has recommenced, and the intention is to reconfigure the administration of the investments by the end of 2019.

The investments of the Scheme were considered again at the meeting of the Trustees on 4th December 2018. This review focused on the fund platform provider and concluded with a recommendation by R&M that the Scheme switch away from the Aegon platform to that provided by Legal & General Investment Management ('LGIM'). The rationale for the change to LGIM was based on the availability of funds that would permit a more appropriate allocation to currency-hedged funds, which will help to manage risk in the portfolio.

The current investment strategies are described in the Statement of Investment Principles ('SIP') that was last reviewed and signed by the Trustees on 30th July 2019. A copy of the SIP is included in this Statement as Appendix A.

The Trustees will conduct a further review of the investment strategies over the next few months to consider how to incorporate their views on financially material considerations arising out of matters such as environmental, social and governance ('ESG') issues, including climate change; their policies in relation to the stewardship of the investments and how they should engage with businesses in which they invest; and also to consider how (if at all) non-financial matters should influence their investment decisions. This will require a further change to the SIP by 1st October 2019 and will be published on the Scheme website (<https://salvustrust.com>).

When the administration changes described above have been made, the SIP will be reviewed yet again in light of the implementation of the revised investment strategies.

As well as reviewing the investment strategies and how they intend to change them in the near future, an important aspect of the Trustees' governance of the Scheme is to receive and consider reports on the investment performance of the funds held. R&M provides the Trustees with investment reports on a regular basis.

Apart from the Cash fund, all of the funds that form the default strategies are 'passively' managed. This means that the fund manager 'tracks' an index, such as the FTSE100 stocks and shares index. To track an index means to adjust the underlying investments held by the fund to match the proportion in the index. Index tracker funds are popular as they remove the

need to attempt to predict which particular stocks and shares are likely to perform better than average, thus reducing the cost of investing.

Performance monitoring therefore principally focusses on two key factors: how closely the manager has tracked the benchmark index in a relative sense, and how the fund has performed in absolute terms, compared to cash.

The reports received from R&M show that the funds in the default strategies have all performed reasonably closely in line with their respective indices, but in absolute terms all funds apart from the long-dated Gilts and the Cash funds have fallen in value over the year, reflecting the general slow-down in markets across the Board. This should be seen in context, however. The annualised performance over the last three- and five-year periods have all shown strong growth and the performance in Quarter 1 of 2019 has improved, mainly due to interest rates being held steady, monetary policy being relatively benign and a perceived reduction in risk related to the USA-China trade war. Similarly, Quarter 2 has been positive, but with more volatility.

Although over 99% of auto enrolled members are in the two default strategies in the main contributory section, it is important to comment on the performance of the 'Freestyle' self-select funds that are available. Some of these funds are passively managed index-trackers, as in the default strategies, but some are actively managed. These are typically investments in markets that have the potential to reward specialist research capabilities or specific skills available to the manager. These characteristics tend to increase the cost of investing in these funds, however, but they do have the potential to 'beat the market' and provide enhanced returns. Details of these funds can be found on the Salvus website: www.salvustrust.com/freestyle-fund.php.

The performance figures for these self-select funds does not encourage the Trustees to abandon their current strategy, as, with a few exceptions, most of the funds have underperformed against the relevant benchmarks over one-, three- and five-year periods.

The performance figures for all funds are detailed in Table 1 below.

Table 1: Fund performance figures

Fund Name	1 Year Performance Fund (%)	1 Year Performance Benchmark (%)	3 Year Performance Fund (%)	3 Year Performance Benchmark (%)
Aegon BlackRock World (ex UK) Equity Index	-3.74	-3.07	12.32	12.92
Aegon BlackRock UK Equity Index	-8.25	-9.47	5.89	6.13
Aegon BlackRock Corporate Bond Index	-1.26	-1.53	4.46	4.37
Aegon UK Gilts All Stocks Tracker	0.30	0.57	3.95	4.08
Aegon BlackRock Over 5 year Index Linked Gilt	-0.09	-0.40	9.35	9.17
Aegon Cash Fund	0.54	0.64	0.40	0.51
Cautious Default	-4.88	-9.47	8.24	6.13
Balanced Default	-4.47	-9.47	9.75	6.13
Aegon Balanced Passive	-3.92	-5.96	8.08	5.34

Aegon MI Savings High	-6.17	-4.17	7.63	5.29
Aegon MI Savings Low	-3.57	-4.17	6.97	5.29
Aegon MI Savings Medium	-4.93	-4.17	7.23	5.29
Aegon BAQ European Equity	-9.90	-9.08	7.86	8.44
Aegon BAQ Japanese Equity	-7.98	-7.58	8.94	9.07
Aegon BAQ Pacific Rim Equity	-8.73	-8.67	12.78	12.86
Aegon BAQ US Equity	-0.20	1.40	14.21	14.69
Aegon Blackrock Aquila 50/50 Global Equity Tracker	-8.07	-7.50	7.71	8.70
Aegon BlackRock Emerging Mkts Equity Tracker	-8.18	-7.64	14.55	14.83
Aegon Distribution	-5.01	-5.33	3.74	3.55
Aegon Ethical	-16.64	-9.47	-1.41	6.13
Aegon HSBC Amanah Fund	-0.03	1.70	12.52	13.50
Aegon LGIM Pre Retirement Fund	-3.16	-2.31	4.41	5.86
Aegon M&G Property Portfolio	4.75	2.86	1.75	2.75
Aegon M&G Recovery	-15.12	-9.47	4.41	6.13
Aegon Blackrock Aquila Over 15y Corp Bond Index	-4.04	-4.14	6.40	6.37
Aegon Blackrock Aquila Over 15y UK Gilt Index	0.94	0.28	7.34	7.08

Fund Name				
Aegon BlackRock 50/50 Equity and Bond Tracker fund	-4.18	-4.50	8.04	7.90
Aegon Cash Fund	0.54	0.64	0.40	0.51

Fund performance for most of the funds, other than the Default Funds, are shown net of Total Expense Ratio it does not include any Salvus charges.

The Default Fund returns are shown net of all charges including the Salvus charges.

Retirement Bridge	2016	2017	2018	Since Inception
1948 Retirement Bridge	13.30	5.22	-3.12	4.43
<i>Annuity Benchmark</i>	<i>9.38</i>	<i>-2.78</i>	<i>-3.70</i>	<i>0.58</i>
1950 Retirement Bridge	14.12	5.81	-3.40	2.85
<i>Annuity Benchmark</i>	<i>10.75</i>	<i>-2.03</i>	<i>-3.33</i>	<i>-0.69</i>
1951 Retirement Bridge	14.58	6.03	-3.55	2.96
<i>Annuity Benchmark</i>	<i>6.54</i>	<i>-3.01</i>	<i>-3.12</i>	<i>-0.65</i>
1953 Retirement Bridge	15.09	6.35	-3.76	3.06
<i>Annuity Benchmark</i>	<i>8.59</i>	<i>-3.38</i>	<i>-2.24</i>	<i>0.40</i>

Fund performance is net of fees. Fund management charges are 0.5%, Total Expense Ratio of 0.85%, inclusive of administration fees.

The change to the LGIM platform referred to above will result in a change in the funds available to members, with a selection recommended by R&M. The transition of funds currently invested in the Aegon funds will be carefully managed to ensure that members suffer no detriment as a result of the transition.

The investments in the Retirement Bridge facility should be mentioned. Retirement Bridge is a product to enable members (after the age of 55) to remain invested in the Scheme, while taking some or all of their tax-free cash and then if they wish drawing down an income from the remainder of their pensions savings. This is the Scheme's feature to enable members to take full advantage of the pension's freedoms introduced a few years ago. There are very few members who use this facility at present, but numbers are likely to grow, and the Trustees have a duty to monitor these funds.

When a member chooses Retirement Bridge the pensions fund is invested in target-dated funds managed by AllianceBernstein. These invest the member's pot in a fund that corresponds to their date of birth. The fund is made up of a collection of growth assets, such as equities, and income-producing assets, such as fixed income gilts, that is adjusted on a lifestyle basis as the member approaches age 75.

The objective of the strategy is to produce a sustainable income at a level similar to that of a typical joint-life, level annuity, but one that is expected to grow over time. The reward of an increasing income in retirement does come with some risk, however. AllianceBernstein constantly monitors the risk profile of the funds and prudently manages the income that is paid out with a pay-out percentage rate set each year. The drawdown rate is not guaranteed to increase each year, but they aim to maintain the drawdown rate between a range of 90% and 102.5% of the annuity benchmark rate.

The performance of the target-dated funds has been encouraging during 2018. Despite the challenging conditions, and the fact that the different 'vintage' of funds have a different asset allocation, the funds have all produced a positive return, albeit fairly modest, and ranging from 1.19% to 2.88%. Compared to the annuity benchmarks, however, which have suffered a reduction of between 6.31% and 9.20%, all of the funds have performed very well. The performance so far in 2019 is looking more positive for both the fund and the benchmark, with the funds performing just ahead of the annuity benchmarks and in the region of 4% to 5%

The Trustees have asked for regular performance figures to be provided for consideration at the Trustee meetings.

Finally, in this section, the default strategy in relation to the 'Spinnaker' section should be mentioned. Spinnaker was the original master trust that was set up to accept the defined contribution funds from pension schemes entering the PPF (Occupational pension schemes which are mostly defined benefit in structure may be eligible for the Pensions Protect Fund if the employer sponsor of the scheme fails for whatever reason. At that time there may also be Defined Contribution elements which the PPF cannot directly receive and manage and these have been transferred into the Spinnaker section). Spinnaker was merged with Salvus in February 2017, into a separate, non-contributory section.

This section has its own default arrangement which uses the Aegon BlackRock 50/50 Equity and Bond Tracker fund or the Cash fund. This is different from the main section in view of the larger pension pot sizes that have been transferred by the PPF and the probability of members taking an annuity at retirement. The Trustees reviewed the strategy and performance of the default arrangements including the extent to which returns were consistent with the Trustees' aims and objectives when the Spinnaker scheme merged with Salvus on 3rd February 2017. A further review will be undertaken during Q3 2019 and any changes will be implemented as part of the change to the LGIM platform.

The actual investment performance of the Aegon BlackRock 50/50 Equity and Bond Tracker has been muted, showing a very modest increase in value over 12 months to December 2018 and performing marginally behind its benchmark. As with the main Salvus section, however,

the performance of the funds in the Spinnaker default strategy over the 3- and 5-year periods has been very positive.

Value for Members

The Trustees are required to assess the value to members of saving for retirement in the Scheme. This is easy to say, but difficult to achieve, due to the lack of standardised benchmarks to make an easy comparison against other schemes.

In order to make an assessment the Trustees asked their investment advisor, R&M, to review certain aspects of the Scheme and to make a comparison against other schemes on the market. The Trustees also considered:

- Whether benefits provided are relevant and valued by members;
- Whether the scope and quality of each service provides good value for the costs and charges incurred by the member; and
- Whether services to members have been performed effectively over the past year and whether it is believed services will continue to perform effectively.

The following sections include the Trustees' (with R&M's help) thinking about the value to be placed on key aspects of the Scheme. This underpinned the Trustees' assessment of the value being provided to members.

Charges and Transaction Costs

An important aspect of assessing value is to consider the cost incurred by the members as a result of being a member of the Scheme. The costs associated with saving for retirement via a pension scheme are a combination of clear, published, charges and more opaque 'transaction' and 'frictional' costs that are not as easy to identify to the casual observer. The sum of these costs can have a significant impact on a member's pensions savings over the long term and Trustees are obliged to discover and publish this information and make a comparison with the costs of other pension schemes as part of their assessment of value for members.

As the Scheme is being used as a Qualifying Scheme for automatic enrolment purposes, the statutory charge controls on defined contribution (DC) schemes limits the charge that can be imposed on members who are invested in the default strategy.

The charges made to save within the Scheme are comprised of three elements:

- Member charges, that includes the Annual Management Charge (AMC) and depends on which fund are used and the deal offered to the employer;
- Transaction charges incurred when contributions are invested; and
- Frictional charges on the invested fund.

Table 2 below lists the different member charges that apply to different groups of members within the Scheme, and who are invested in the default arrangements. The information given in the table relates to the headline 'member' charges that are deducted from members' funds to cover the cost of administration, investing, audit, marketing and governing the Scheme. The charge that applies is determined by the contractual agreements in place with the members'

employer. Note that the numbers of employers and members in this table are as at 18 June 2019:

Table 2: Member charges

Member charge	Number of employers whose members pay the level of charge	Total members
0.29%	37	5,444
0.34%	4	582
0.44%	596	7,600
0.49%	13	1,118
0.50%	88	263
0.60%	317	3,324
0.65%	444	4,556
0.75%	422	10,162
0.49% + £1 per member per month	12	8,069
0.60% + £0.83p per member per month	948	20,815
Total	2,881	61,933

Over 99% of the overall membership are invested in the default strategy funds. For those who would rather choose a different fund, Salvus has a range of self-select funds that we call the 'Freestyle' range. The funds have been selected to provide exposure to a good range of different asset classes and geographical areas. Most of these funds are passively managed index-trackers, but some are actively managed, due to the specialist knowledge required to exploit particular market situations.

Details of the funds available and the level of charges applicable to these are as given in Table 3:

Table 3: Charges for Freestyle funds

Fund Name	Level of Charge 'AMC' (Percentage per annum)
Aegon Balanced Passive 0.23%	0.23%
Aegon MI Savings High 0.90%	0.90%
Aegon MI Savings Low 0.90%	0.90%
Aegon MI Savings Medium 0.90%	0.90%
Aegon Balanced Passive Fund 0.45%	0.45%
Aegon BAQ European Equity 0.75%	0.75%
Aegon BAQ Japanese Equity 0.75%	0.75%
Aegon BAQ Pacific Rim Equity 0.75%	0.75%
Aegon BAQ US Equity 0.75%	0.75%
Aegon Blackrock Aquila 50/50 Global Equity Tracker 0.45%	0.45%
Aegon BlackRock Balanced Passive 0.75%	0.75%
Aegon BlackRock Emerging Mkts Equity Tracker 0.75%	0.75%
Aegon Distribution 0.75%	0.75%
Aegon Ethical 1.05%	1.05%
Aegon Ethical Fund 0.8%	0.80%
Aegon HSBC Amanah Fund 1.05%	1.05%

Aegon LGIM Pre Retirement Fund 0.80%	0.80%
Aegon M&G Property Portfolio 1.45%	1.45%
Aegon M&G Recovery 1.45%	1.45%
Aegon MG Recovery Fund 1.2%	1.20%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.29%	0.29%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.34%	0.34%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.44%	0.44%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.45%	0.45%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.49%	0.49%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.5%	0.50%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.6%	0.60%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.65%	0.65%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.75%	0.75%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.29%	0.29%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.34%	0.34%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.44%	0.44%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.45%	0.45%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.49%	0.49%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.5%	0.50%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.6%	0.60%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.65%	0.65%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.75%	0.75%

Some of the funds in Table 3 are the same but with a different AMC. This reflects the commercial requirement to cover costs but still allow the Scheme to remain open to the very smallest employers and deliver the same features and Scheme benefits.

In addition to the Qualifying Scheme, there is a Non-Contributory and a Spinnaker section which do not have to comply with the charge cap. These sections are used by schemes looking to wind-up or who are entering the PPF and are looking for an appropriate pension vehicle to accept, manage and govern their members' DC benefit entitlements. This includes the merger of the Spinnaker Master Trust where members are predominantly invested in the Aegon BlackRock Aquila 50/50 Equity and Bond Tracker Fund or Aegon Cash Fund.

The Non-Contributory section funds have the levels of charges set out in the Table 3 above, however, the Spinnaker section funds have the levels of charges set out in Table 4 below. Again, the range is to allow Salvus to admit to membership any DC scheme, regardless of member numbers and pot size.

Table 4: Spinnaker fund charges

Fund Name	Level of Charge 'AMC' (Percentage per annum)
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.40%	0.40%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.50%	0.50%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.75%	0.75%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 1.00%	1.00%
Aegon Cash Fund 0.40%	0.40%

Aegon Cash Fund 0.50%	0.50%
Aegon Cash Fund 0.75%	0.75%
Aegon Cash Fund 1.00%	1.00%

The charges for the Retirement Bridge Alliance Bernstein Target-Dated Funds are set out in Table 5 below.

Table 5: Retirement Bridge Alliance Bernstein fund charges

Fund Name	Level of Charge 'AMC' (Percentage per annum)
AB Retirement Strategies Fund 2026-2028 (Salvus)	0.85%
AB Retirement Strategies Fund 2032-2034 (Salvus)	0.85%
AB Retirement Strategies Fund 2035-2037 (Salvus)	0.85%
AB Retirement Bridge 1948 Drawdown Strategy 0.85	0.85%
AB Retirement Bridge 1950 Drawdown Strategy 0.85	0.85%
AB Retirement Bridge 1951 Drawdown Strategy 0.85	0.85%
AB Retirement Bridge 1953 Drawdown Strategy 0.85	0.85%

Illustration of charges and disclosure costs

The following table (Table 6) sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings.

The "before costs" figures represent the projected pensions savings assuming an investment return with no deduction of member borne fees or transaction costs. In comparison, the "after costs" figures represent the projected pension savings using the same assumed investment return after deducting the member borne fees.

An illustration is shown for one of the default options, the Cautious Portfolio, as most members of the Scheme are invested in this default, as well as two funds from the Scheme's self-select fund range. The two self-select funds used for the illustrations are:-

- The fund with the highest before-costs expected return which most members of the Scheme invest in – this is the Aegon BlackRock World (ex UK) Equity Index.
- The fund with the lowest before-costs expected return – this is the Aegon Cash Fund.

Projected pension pot in today's money

Table 6: Cumulative impact of charges

Years from now	Cautious Default (most popular)		World (Ex UK) Equity Index (highest return)		Cash (lowest return)	
	Before charges	After charges	Before charges	After charges	Before charges	After charges
0	£3,038.00	£3,038.00	£3,038.00	£3,038.00	£3,038.00	£3,038.00
1	£5,023.31	£4,985.64	£5,043.75	£5,005.92	£4,866.03	£4,829.53
2	£7,079.97	£6,988.11	£7,135.08	£7,042.40	£6,665.01	£6,579.35
3	£9,210.56	£9,046.98	£9,315.69	£9,149.86	£8,435.39	£8,288.40
4	£11,417.80	£11,163.89	£11,589.44	£11,330.82	£10,177.59	£9,957.61
5	£13,704.49	£13,340.49	£13,960.37	£13,587.87	£11,892.06	£11,587.87
10	£26,434.95	£25,180.81	£27,426.18	£26,112.47	£20,062.95	£19,185.19
15	£41,634.95	£38,793.19	£44,035.23	£40,987.35	£27,601.27	£25,933.09
20	£59,789.73	£54,447.51	£64,528.76	£58,659.47	£34,553.91	£31,923.54
25	£81,479.82	£72,454.76	£89,822.73	£79,660.76	£40,964.25	£37,238.56
30	£107,399.85	£93,173.27	£121,049.12	£104,624.29	£46,872.51	£41,951.29
35	£138,268.16	£116,920.82	£159,606.78	£134,342.64	£52,315.90	£46,126.97
40	£172,443.57	£134,628.39	£207,224.39	£170,693.63	£57,328.89	£49,823.77
45	£206,756.21	£160,282.30	£266,038.22	£215,600.95	£61,943.40	£53,093.59
50	£214,217.95	£173,196.15	£338,688.25	£266,288.85	£66,188.99	£55,982.68

Notes to illustrations

- Values shown are estimates and are not guaranteed.
- Projected pension pot values are shown in today's terms.
- Costs and charges are assumed to remain at the same level as those applying during 2018.
- Future investment growth is determined by the investment fund selected and are in line with the method and assumptions governing Statutory Money Purchase Illustrations (SMPI) as detailed by the Faculty and Institute of Actuaries in Technical Memorandum 1 (TM1). The assumed growth rate for the World (ex-UK) Equity Index fund is 7% per annum; for the Cash fund it is 1% per annum and for the Cautious Default strategy it is 6.31% per annum.
- Future changes in investments as a result of the lifestyle option have been factored into the calculations.
- The costs and charges are assumed to be at a rate of 0.75% per annum per fund shown in Table 3, including all costs and charges.
- Inflation is assumed to be 2.5% each year.
- The starting pot size is £3,038.
- The starting salary is assumed to be £22,968.
- The projections assume that salaries increase in line with inflation to allow for prudence in the projected values.
- Contributions are assumed to be 8.37% per year (employee plus employer contribution), which is the average contribution for the auto enrolment section of the Scheme since April 2019, when the contribution rates increased in line with regulations.

This illustration has been produced having regard to the Department of Work and Pensions 'Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes' dated September 2018. The Trustees' investment advisers have confirmed that this illustration does not deviate from the principles in that guidance.

Transaction costs

In addition to these headline charges there are also costs deducted by the fund managers for the transactions made in invested funds. This covers issues such as commission paid to

stockbrokers, bank transaction charges, stamp duty and platform fees paid when a fund manager engages in trading within the fund.

The Trustees asked R&M to examine these investment management and platform charges payable by members. The sum of these charges is referred to throughout this document as the Total Expense Ratio or “TER”.

R&M has considered investment management and platform charges available in the DC market for similar types of funds, and the overall member charges for DC offerings across the industry, based on survey data.

The Table 7 below provides the TER of the funds in the default strategies (as an average of TERs for each fund in the strategies), and for each individual fund and for the funds available in the Freestyle self-select range. R&M reports that they view Salvus’ average TER of 0.11% as ‘average’ compared with typical charges for passive funds of the nature of those used within the default strategies.

More information on the transaction costs for each fund is attached as Appendix B and for the Retirement Bridge funds in Appendix C.

R&M draws another comparison of charges by looking at the TERs compared with the ‘average’ overall cost of DC scheme membership across the industry. The most recent survey of charges published by the Department for Work and Pensions (“DWP”) in 2017 places the average member charge for DC arrangements of over 1,000 members (the range within which Salvus sits) at 0.37% and 0.61% p.a. for qualifying and non-qualifying arrangements respectively. While this does not differentiate between bundled and investment-only charges, Salvus’s TERs are materially lower than this average figure.

They conclude that Salvus’s members have access to a range of investment options, including a default strategy reflecting de-risking as retirement approaches, at a competitive investment management and platform cost

R&M views Salvus’s average TER across the self-select fund range of 0.23% p.a. as ‘average’ overall for fund options of this nature.

For the passively managed funds, they consider that the average TER of 0.13% p.a. is ‘favourable’ when compared with typical charges of 0.10% to 0.30% for passively managed funds. For the actively managed funds, the average TER of 0.35% p.a. is broadly in line with the charges associated with funds of this nature. The Trustees have concluded that the transaction charges on the funds represent good value for members.

Table 7: Total Expense Ratios (TERs)

Fund Name	Total Expense Ratio (TER) Percentage per annum
Average TER of the Cautious Lifestyling default strategy	0.11%
Average TER of the Balanced Lifestyling default strategy	0.11%
Aegon UK Gilts All-Stocks Tracker	0.11%
Aegon BlackRock Corporate Bond Tracker	0.11%
Aegon Over 5y Index Linked Gilt Index	0.11%
Aegon BlackRock UK Equity Tracker	0.11%
Aegon BlackRock World (ex UK) Equity Tracker	0.11%

Aegon Balanced Passive 0.23%	0.11%
Aegon MI Savings High 0.90%	0.23%
Aegon MI Savings Low 0.90%	0.23%
Aegon MI Savings Medium 0.90%	0.23%
Aegon Balanced Passive Fund 0.45%	0.11%
Aegon BAQ European Equity 0.75%	0.11%
Aegon BAQ Japanese Equity 0.75%	0.11%
Aegon BAQ Pacific Rim Equity 0.75%	0.11%
Aegon BAQ US Equity 0.75%	0.11%
Aegon Blackrock Aquila 50/50 Global Equity Tracker 0.45%	0.11%
Aegon BlackRock Balanced Passive 0.75%	0.11%
Aegon BlackRock Emerging Mkts Equity Tracker 0.75%	0.11%
Aegon Distribution 0.75%	0.25%
Aegon Ethical 1.05%	0.38%
Aegon Ethical Fund 0.8%	0.38%
Aegon HSBC Amanah Fund 1.05%	0.38%
Aegon LGIM Pre Retirement Fund 0.80%	0.17%
Aegon M&G Property Portfolio 1.45%	1.15%
Aegon M&G Recovery 1.45%	0.93%
Aegon MG Recovery Fund 1.2%	0.93%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.29%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.34%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.44%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.45%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.49%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.5%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.6%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.65%	0.11%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.75%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.29%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.34%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.44%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.45%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.49%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.5%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.6%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.65%	0.11%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.75%	0.11%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.4%	0.11%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.5%	0.11%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.75%	0.11%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 1.00%	0.11%
Aegon Cash Fund 0.40%	0.13%
Aegon Cash Fund 0.50%	0.13%

Aegon Cash Fund 0.75%	0.13%
Aegon Cash Fund 1.00%	0.13%

“Frictional” costs

R&M has also provided information about the underlying costs that are incurred due to the trading in each fund, and these are set out in Table 8 below. These costs are additional to the TER figures described above. Note that some of the funds use the ‘swinging price’ model, which can result in a negative charge and therefore represent a gain. This can occur where the buying and selling price of a fund varies in order to prevent existing investors from suffering a loss due to transaction costs incurred when other fund holders invest or disinvest from the fund. This is sometimes referred to as an ‘anti-dilution’ strategy, that can result in existing fund holders gaining due to the movements into and out of the fund.

Table 8: ‘Frictional’ costs

Fund Name	Transaction costs (ongoing frictional) Percentage per annum
Aegon UK Gilts All-Stocks Tracker	0.000%
Aegon BlackRock Corporate Bond Tracker	0.017%
Aegon Over 5y Index Linked Gilt Index	-0.010%
Aegon BlackRock UK Equity Tracker	0.088%
Aegon BlackRock World (ex UK) Equity Tracker	0.009%
Aegon Balanced Passive 0.23%	0.063%
Aegon MI Savings High 0.90%	0.062%
Aegon MI Savings Low 0.90%	0.040%
Aegon MI Savings Medium 0.90%	0.055%
Aegon Balanced Passive Fund 0.45%	0.063%
Aegon BAQ European Equity 0.75%	0.027%
Aegon BAQ Japanese Equity 0.75%	-0.076%
Aegon BAQ Pacific Rim Equity 0.75%	0.053%
Aegon BAQ US Equity 0.75%	-0.021%
Aegon Blackrock Aquila 50/50 Global Equity Tracker 0.45%	0.008%
Aegon BlackRock Balanced Passive 0.75%	0.063%
Aegon BlackRock Emerging Mkts Equity Tracker 0.75%	-0.022%
Aegon Distribution 0.75%	0.095%
Aegon Ethical 1.05%	0.840%
Aegon Ethical Fund 0.8%	0.840%
Aegon HSBC Amanah Fund 1.05%	0.033%
Aegon LGIM Pre Retirement Fund 0.80%	0.016%
Aegon M&G Property Portfolio 1.45%	-0.038%
Aegon M&G Recovery 1.45%	-0.211%
Aegon M&G Recovery Fund 1.2%	-0.211%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.29%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.34%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.44%	0.048%

Aegon Blackrock Aquila Over 15y Corp Bond Index 0.45%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.49%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.5%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.6%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.65%	0.048%
Aegon Blackrock Aquila Over 15y Corp Bond Index 0.75%	0.048%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.29%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.34%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.44%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.45%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.49%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.5%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.6%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.65%	-0.027%
Aegon Blackrock Aquila Over 15y UK Gilt Index 0.75%	-0.027%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.4%	0.010%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.5%	0.010%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 0.75%	0.010%
Aegon BlackRock 50/50 Equity and Bond Tracker fund 1.00%	0.010%
Aegon Cash Fund 0.40%	0.000%
Aegon Cash Fund 0.50%	0.000%
Aegon Cash Fund 0.75%	0.000%
Aegon Cash Fund 1.00%	0.000%

The funds used in the non-contributory, at-retirement, Retirement Bridge section of the Scheme differ from those in the main contributory section. The funds are 'target-dated' funds managed by AllianceBernstein. These funds are a carefully selected blend of different underlying funds, designed to enable members to draw a sustainable income from their pensions savings, with a reasonable prospect of further growth in value. This structure makes it more difficult to apply the slippage cost method of determining transaction costs incurred in the funds.

The largest 'transaction charge' will occur when a member trades in or out of the fund. This is because the underlying funds have bid-offer spreads on the 'swinging price' model, as described above.

The Trustees have received information from AllianceBernstein that shows the transaction costs incurred within the target-dated funds. This is attached as Appendix C. The Trustees intend to invite AllianceBernstein to one of the meetings during 2019 in order to seek to better understand the charges within the funds.

Non-financial aspects of value for members

Value for members is not solely about providing a low-cost investment vehicle. The Trustees have also taken into account the other aspects of the Scheme that provide value and have formed an assessment about the quality and scope of these services, how these have performed over the year and whether they think that this will continue into the future.

Governance

The fundamental responsibility of the Trustees is to protect the interests of the members and to help them to achieve maximum value from being a member of the Scheme. They do that by holding the administrators and sponsor to account in terms of how the Scheme is managed on a day-to-day basis, and thinking carefully about the appropriate investment strategy and choice of funds available, and the security of the assets held for members.

This is achieved by seeking appropriate professional advice, having agreed methods of reporting by all parties, and by performing regular reviews of the performance of all parties associated with the Scheme, including their own.

It is clear that the preparation to apply for authorisation by TPR has required a root and branch review of every aspect of the operation of the Scheme and the way in which the Trustees conduct this oversight. It is undeniable that this has resulted in an improvement in the way that the Scheme is governed, so the portion of the Scheme charge spent on this function represents good value to members.

Member facilities

Salvus is keen to provide as much useable information as they can to the members, in order to help them to understand the importance of monitoring their pensions savings and achieving the optimal outcome. Features such as knowledgeable help desk staff and Member Portal all enhance the experience.

The Member Portal has been developed further over the year and now allows members to:

- view the current value of their account
- initiate investment fund switches
- arrange transfers in and out of the Scheme
- complete a death benefit nomination form
- view fund fact sheets
- feedback to the Administrators on any aspect of their account
- request a retirement pack

The Scheme has also introduced the Origo transfer service, that significantly speeds up the process and security of making transfers into and out of the Scheme. This facility to consolidate pensions savings in a streamlined manner is a valuable feature of the Scheme.

The Retirement Bridge facility also offers members good value, as it enables eligible members to draw cash from their pensions savings without having to move to another provider. As more members reach the stage where they wish to access their funds in a flexible and convenient manner, this facility enhances the value that members derive from the Scheme.

Although it was not available in the period covered by this Statement, it is worth mentioning the 'Salvus App' that has recently been launched. The App enables members to access the Member Portal via their phone or other smart devices. This is evidence that the Scheme is keen to encourage members to engage with their pensions savings and make the most of their membership. It represents another feature that adds to the value to members.

Trustees' assessment of value for members

An assessment of value for members must take into account the costs and features across the Board. The Trustees recognise that cost is not the sole determinant of value, but they have

put more weight on that aspect in view of the potentially corrosive impact of charges on long term savings. As the tables earlier on in this section demonstrate, there are different levels of charges for some members, dependent upon the contractual agreement with their employer, but all members enjoy the same level of administration, governance, investment performance and product features, regardless of that charge. The conclusions by R&M that the Scheme provides access to a range of investment options, including de-risking as retirement approaches, at a competitive investment management and platform cost, informed the Trustees in their judgement.

The Trustees have concluded that the Scheme provides good value for members, regardless of headline member charge, and the plans for future enhancements to features such as the Salvus App and the Member Portal will build on this sound foundation.

Core Financial Transactions

Defined Contribution pension schemes rely on the prompt, accurate, investment of contributions and other payments into the Scheme, and the efficient payment of funds to members when they seek to access their pensions savings. During the 2018 Scheme year 'core financial transactions' such as investments of contributions, transfers and payments in and out of the Scheme and switching of investments were processed promptly and accurately (having regard to TPR's DC Administration Guidance).

In order to perform this major task for such a large number of members, HS Admin has invested heavily in automated processes that eliminate the need for human input when contributions are paid to the Scheme. This is explained further below, alongside the other ways in which the Trustees ensure that core financial transactions are processed promptly and accurately.

Employers load their earnings and pensions data onto the online Employer Portal which immediately performs an analysis and flags any issues. Once this stringent test is completed, the data is automatically allocated to the respective members' records and a direct debit instruction is raised to call the contributions from the employers' bank account. Once the contributions have been invested, the system automatically records the number of units purchased, and the purchase price, on each member's record.

The Trustees have service level agreements (SLAs) in place with HS Admin that cover the accuracy and timeliness of core financial transactions and they provide quarterly reports that confirm the performance against these standards. Recent reports have confirmed that the average number of working days from the date that contributions are received to the date of payment to the investment manager has been 1 to 1.12 days. The average working days from the date of contribution receipt to date of actual investment has been 2 to 2.12 days.

An important factor in collecting contributions from employers is the success or otherwise of making a direct debit transaction (DDs). Statistics from HS Admin show that DDs average at over 99% success each month. This is not a perfect record and HS Admin have processes in place to identify and follow up on the failures. This includes system-generated reports that enables the Administrators to contact the employers. The cause of these failures tends to be where an employer has cancelled the direct debit mandate at their bank.

If this was anything other than an accidental lapse, and contributions do not follow promptly, the contribution monitoring protocols come into play. These protocols aim to initiate a rapidly escalating chasing process carried out by HS Admin on behalf of the Trustees that reminds the employer of its responsibility and moves on to notifying the members and TPR, as is

required by law. HS Admin provides the Trustees with a monthly report on the payment of contributions and any action taken in respect of late payments. This will include whether they have had to instigate the contribution monitoring protocol. These reports, together with a formal report at each quarterly Trustee meeting, keeps the Trustees updated if issues are not resolved quickly. The process has proved extremely effective and the incidence of late contributing employers is now very low.

As well as the collection and investment of routine contributions, the other financial transactions that need to be performed quickly and accurately are also monitored and reported to the Trustees. These are also subject to SLA's that cover the accuracy and timeliness of these core financial transactions.

The performance against the SLAs for the processing and payment of death claims, retirement settlements and trivial commutation payments are reported in HS Admin's routine report to the Trustees, as well as the processing of transfers into and out of the Scheme, and instructions by members to switch their investment funds. Table 9 below sets out how HS Admin has performed over the year in these tasks:

Table 9: Performance against Service Level Agreement

Task	Completed - Total	Completed – In Target	% completed within SLA
Deaths	30	27	90%
Retirement Settlement	388	374	96%
Trivial commutation payment	211	211	100%
Transfer In	399	388	97%
Transfer Out	361	352	97%
Investment switch	29	29	100%

Performance of processing these transactions has been improved significantly by adding functionality on the Member Portal. As has been mentioned above, members can initiate fund switches, transfers in and out and retirement quotations on the Member Portal, and update their Expression of Wishes form, all reducing the time taken for these events to be concluded.

Trustee Knowledge and Understanding

Occupational pension schemes, such as this Scheme, are complex structures and the level of knowledge and expertise required of the Trustees is rightly set at a high level. The pensions landscape is in a constant state of development, as new regulations and legislation impacts on the way in which schemes must be governed.

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have knowledge of the law relating to pensions and trusts, and the principles relating to the funding of occupational schemes and the investments of scheme assets to enable the trustees to exercise their functions properly. Trustees should also have a working knowledge (or 'conversance') with the governing documents of the scheme, such as the trust deed and rules, any document that records the policies adopted by the Trustees relating to the governance of the scheme generally, and of the Statement of Investment Principles.

During the 2018 Scheme year the Salvus Trustees demonstrated their continued satisfaction of this 'Trustee Knowledge and Understanding' requirement in a number of ways:

- As part of the process of preparing our application for authorisation, the Trustees reviewed and approved all of the procedures and process involved in the administration and governance of the Scheme. This included checking their familiarity with the governing documents of the Scheme including trust deed and rules and carrying out a detailed analysis of the Trustees' various policies that relating to the good administration of the Scheme. It also included ensuring the Trustees remained familiar with the 'balance of powers' under the Scheme rules and pensions law, which has resulted in the Trustees commissioning a legal review of their balance of powers document to ensure it is up-to-date following changes to the Scheme rules;
- Actively engaged with their professional investment advisers to develop the investment strategy as enshrined in the Statement of Investment Principles which involved a detailed review of that document and consideration of investment principles;
- Read legislation and Regulations at source, in particular relating to master trust authorisation, together with summaries and interpretations published in the professional journals and by specialist pensions advisors on an ad hoc basis focussing on areas of interests in industry publications and items directly affecting the Scheme;
- Read the output produced by the Pensions Regulator, in particular the Codes of Practice and supporting guidance;
- Checking awareness of updates to the Trustee Toolkit, which is an e-learning programme produced by the Pensions Regulator and that the Trustees are comfortable with the subject material contained within them;
- The new Trustee appointed in 2018 was Andrew Blackman, who when appointed spent time familiarising himself with the Scheme's governing documentation from the trustee perspective. Given Andrew's strong pensions background and already established familiarity with Salvus (including its processes and documents), as well as the fact he had already completed the Trustee Toolkit, it was considered that a formal induction programme was not proportionate in this case. The process for inducting new trustees is assessed on a case by case basis to ensure it remains tailored and proportionate. For the appointment of Abundzu Limited, its representative Barry Parr was asked to complete the Trustee Skills Matrix and given access to the Trustee Gateway, which contains all of the historic and current Scheme documentation. He also received induction training on the historical aspects of the Scheme and the current issues that it faces;
and
- Attending and contributing to specialist pensions conferences and seminars, hosted by pensions journals and advisory firms. These events, commonly including keynote speeches from representatives of the Pensions Regulator, are a particularly effective means to maintain knowledge and to understand new developments.

The Trustees have a combined experience of working in the pensions industry of some 75 years and have experienced at first hand the impact of the multitude of legislative changes and new regulations that have rained down on occupational pensions over that time. All three Trustees have completed the Trustee Toolkit and other relevant qualifications, with Andrew Blackman completing it in 2006, Barry Parr in 2009 and Nick Boyes in 2016. All Trustees have kept up with new releases to the Toolkit as mentioned above. The Trustee Board covers a broad spectrum of relevant experience: Nick Boyes of Able Governance started in DC pensions administration and then spent many years in pension scheme governance; Andrew Blackman has many years' experience in occupational pension scheme consultancy, advising companies and trustees on the governance of their pension schemes; and Abundzu was selected as the new Independent Trustee based on Barry Parr's strong investment background, having been Trustee Member and Chair of the cross-industry DC Asset Security Working Group, and also having been a trustee on several other master trusts.

As a Board the Trustees are experienced in using professional advisers and engage their professional advisers, including legal and investment advisers, to help the exercise of their duties.

The Trustees recognise the danger that their knowledge and experience could overlap to such an extent that there are areas where their combined skills are insufficient, leaving vulnerabilities in the governance of the Scheme. In order to assess the situation, the Trustees complete a skills matrix, based on that published by TPR, on an annual basis. The Trustees use this analysis to determine training requirement and activities to pursue in order to fill any gaps.

A skills matrix of the Trustees Knowledge and Understanding overall is held and is formally reviewed on an annual basis to evaluate the performance and effectiveness of the Trustees as a whole. The Trustees intend to use TPR's suggested example questionnaire, as a means to further improve their analysis of the operation of the Board.

The Trustees maintain a log of all activities that are relevant to the Trustee Knowledge and Understanding requirement. Training activities during 2018 have covered all aspects of DC scheme governance, pensions and trust law, investment principles and strategy, member engagement, GDPR and cyber security and other relevant topics. Each Trustee has logged in excess of 70 hours on these activities during 2018.

The Trustees consider that, due to the actions and attributes outlined above, and in conjunction with the use of their professional advisers, they have the combined knowledge and understanding and access to advice to enable them to properly exercise their functions as trustees of the Scheme.

All professional trustees, including Able Governance and Abundzu, can voluntarily seek 'accreditation' from the Association of Professional Pension Trustees in order to demonstrate that they have sufficient knowledge and skills to fulfil their obligations. It is possible that this will become mandatory overtime. This will provide independently verified evidence that the Trustees are able to run the Scheme properly. Able Governance and Abundzu intend to seek that accreditation.

Non-affiliation of trustees

I mentioned earlier that the Trustee Board has changed, and it is a requirement of Regulation 26 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 that the Statement sets out how the Scheme meets the requirement for a majority of the Trustees, including the Chair, to be non-affiliated. Where a non-affiliated trustee resigns the Scheme must again meet the non-affiliation requirement within three months.

I can confirm that the majority of the Trustees, including the Chair, during the period covered by this Statement and subsequently, meet this non-affiliation requirement, subject to a permitted gap of under three months whilst the recruitment process to replace Clark Benefit Consulting Limited was being run.

To be 'non-affiliated' means that they are independent of any undertaking that provides advisory, administration, investment or other services in respect of the Scheme. I am pleased to confirm that neither of the independent trustees in place in 2018 (Able Governance Ltd and Clark Benefit Consulting Limited) or their representatives, had ever provided such services to the Scheme or have been a director, manager, partner or employee of any such undertaking

or any undertaking that is in the same corporate group or partnership with a service provider to the Scheme. Nor had they ever taken any payment or benefit from the Scheme other than in respect of their role as trustee. They do not have any relationship with any of service provider to the Scheme that would conflict with their obligations as trustee. Consequently, both Able Governance Ltd and Clark Benefit Consulting Limited were non-affiliated during their appointments in 2018. Neither of the Trustees had been in the role for more than five years.

Although it happened after the period covered by this Statement, it is worth describing the process of selecting and appointing Abundzu Limited to the Trustee Board in February 2019. Section 28 of the 1996 Regulations sets out the requirement for the appointment process to be 'open and transparent'. To this end, the position was advertised via Linked In, which is widely used by professional firms to disseminate news and announcements. The advert resulted in a 5 highly qualified candidates putting themselves forward. After consulting with me as acting Chair of the Trustees, Abundzu was selected, based on the skills and experience that Barry Parr was able to demonstrate, including the fact that he acts as trustee on several other master trusts. This experience has been very helpful during the process of preparing for the authorisation process.

As mentioned above Clark Benefit Consulting Limited resigned on 30 November 2018. This led to an interim period, as permitted by law, of less than three months where there was one non-affiliated trustee (Able Governance) and one affiliated trustee (Andrew Blackman). I, as representative of Able Governance, was appointed Trustee Chair for this period and remain so. Abundzu Limited was appointed just over two months later. The detail is not required for this Statement, but Abundzu Limited is also 'non-affiliated'. As such the Scheme remained compliant with the non-affiliation requirements.

Communication and engagement with members

Above all else, the objective of the Trustees is to produce the best possible outcome for the members of the Scheme. We attempt to do this by having a robust governance regime, thoughtfully constructed investment strategies and by seeking the advice of seasoned professional advisers.

These efforts would be diminished, however, if we did not take into account the views of the members. This is particularly important when it comes to the consideration of the default investment strategy and the range of self-select funds that are available.

Engagement with members takes many forms:

- Well-constructed information available in hard-copy form and on the website;
- A telephone helpline that is staffed by experienced administrators;
- Correspondence to members when they are 12 months from their 50th birthday to encourage them to consider their pensions savings strategy;
- Annual newsletter to all members that reminds them how to use the Member Portal;
- Annual member benefit statements that encourages members to log on to the dedicated Member Portal to see real-time information about their pensions savings;
- The Member Portal enables members to take a number of useful actions:
 - Reset their user name and/or password;
 - Nominate a beneficiary in the event of their death;
 - Produce a statement of the current value of their pensions account;
 - Initiate a non-advised transfer-in from other schemes in order to consolidate their pensions savings;

- Produce a transfer-out quotation and pack that contains the relevant discharge forms;
- Request a retirement quote (if aged 55 or over) with necessary forms. Members are obliged to download copies of helpful guidance from the Government-sponsored Pension Wise and Money Advice Service websites, and the pensions liberation fraud leaflet from the Pensions Regulator;
- View/download fund fact sheets for all of the funds offered by the Scheme;

The Trustees and their administrators are aware that the websites and Member Portal can be all-singing and all-dancing, but the effort would be wasted if the members are not encouraged to access them. Every piece of communication and interaction with the members includes reference to the Member Portal and encourages members to log on and see what functions are available, and to provide feedback via a dedicated website address and online form. This has been reasonably successful, with almost 25% of the members having accessed their accounts via the Member Portal since it was launched, this figure comparing well to industry comparisons.

HS Admin, who performs the administration of the Scheme, provide information and statistics about member engagement in their routine administration reports. The most recent statistics show that 757 members have made or updated their death benefit nomination forms in the quarter ending 31 March 2019, 148 members have completed transfers-into the Scheme, and 34 members have made use of the recently-introduced facility on the Member Portal to amend their investment allocation or to change their target retirement age.

A further development is the recent launch of the ‘Salvus App’ that enables members to access the Member Portal via their smart phones. This is further encouragement to members to make use of the facilities and to engage with their pensions savings, and fits into the modern way that people access information.

The fact that members are using the resources available is a positive sign that the encouragement is having the desired effect, but the Trustees routinely consider how this can be enhanced. Consideration is being given to surveying the views of members via on-line polls and other methods.

Conclusion

The good work done during 2018 and so far, this year has demonstrably enhanced the governance and performance of the Scheme. The codification of all processes and procedures, while not necessarily changing the way in which the Scheme is administered, has provided a sound framework for analysis and review that will help to ensure that the Scheme is run in line with best practice.

At the time of writing, the outcome of the application for authorisation is unknown. While the Trustees are confident that the Scheme will meet the stringent tests set by TPR, whatever the outcome, we are committed to protecting the interests of the members and seeking to provide the best possible outcome. I look forward to reporting in next year’s Statement that TPR has authorised the Scheme and that we look to the future with confidence.

A handwritten signature consisting of the letters 'NB' followed by a large, sweeping flourish that curves around the letters and extends to the right.

Nicholas Boyes
Chair of Trustees

Salvus Master Trust

Statement of Investment Principles

July 2019



Version Update

Version	Effective from
1.0	July 2017
2.0	March 2019
3.0	July 2019

Statement of Investment Principles

July 2019

Contents

<u>1</u>	<u>Introduction</u>	28
<u>2</u>	<u>Governance</u>	29
<u>3</u>	<u>Investment Objectives</u>	30
<u>4</u>	<u>Default Investment Strategies</u>	31
<u>5</u>	<u>Investment Strategy</u>	33
<u>6</u>	<u>Strategy Implementation</u>	34
<u>7</u>	<u>Monitoring</u>	35
<u>8</u>	<u>Fees</u>	36
<u>9</u>	<u>Risks</u>	37
<u>10</u>	<u>Other Risks</u>	39
	<u>Appendix A - Responsibilities</u>	40
	<u>Appendix B – Investment Options</u>	41
	<u>Appendix C – Lifestyle fund allocation by age</u>	48

Introduction

This document constitutes the Statement of Investment Principles (the “SIP”) required under Section 35 of the Pensions Act 1995 for the Salvus Master Trust (“Salvus”). It describes the investment policy being pursued for the Salvus by the Trustees of the Salvus Master Trust (the “Trustees”) and is in compliance with our understanding of the requirements of the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes (Charges and Governance) 2015, and the Pensions Regulator’s Code of Practice in relation to governance of DC pension schemes issued in July 2016 in force at the time of preparing this document.

The Trustees confirm that, before preparing this SIP, they have consulted with Goddard Perry Consulting Limited (the “Employer”) and taken appropriate advice from their advisors. The Investment Advisor is River and Mercantile Investments Limited and the Legal Advisor is ARC Pensions Law LLP.

The Trustees believe their advisors to be qualified by their ability and practical experience of financial and legal matters respectively and to have appropriate knowledge, and experience of the management of the investment arrangements that Salvus requires. The Trustees also confirm that they will consult with the Employer and take advice from the relevant advisors as part of any review of this SIP.

The Trustees are responsible for the investment of Salvus’ assets and arranging administration of Salvus. Where they are required to make an investment decision, the Trustees always receive advice from the relevant advisors first and they believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000, the Trustees set general investment policy, but have delegated the day-to-day investment of Salvus’ assets to professional fund managers (the “Investment Managers”) in accordance with Section 34(2) of the Pensions Act 1995. The Managers are authorised under the Financial Services & Markets Act 2000, provide the expertise necessary to manage the investments of Salvus competently and will comply with the requirements of Section 36 of the Pensions Act 1995.

Declaration

The Trustees acknowledge that it is their responsibility, with guidance from their advisors, to ensure the assets of Salvus are invested in accordance with these Principles.



Signed Date 30 July 2019

For and on behalf of the Trustees of the Salvus Master Trust.

Governance

The Trustees are responsible for the governance and investment of Salvus' assets. They consider that the governance structure set out in this SIP is appropriate for Salvus as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or the advisors as appropriate. The responsibilities of each of the parties involved in Salvus' governance are detailed in **Appendix A**.

Investment Objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different attitudes to risk. The Trustees regard their duty as the provision of a pension scheme which aims to provide members with suitable benefits at retirement.

The Trustees undertake this duty by creating a robust default arrangement offering to cater for the proportion of the workforce not actively managing their pension investments. This default should be focused on members' needs and outcomes.

The Trustees also make available a range of investment options (managed by high quality investment managers) sufficient to enable members who so choose, to tailor their investment strategy to their own needs.

The default strategies available to Salvus members are set out in section 4. The Trustees' objectives in respect of the default strategies are:

- i. To provide members with a robust default arrangement designed to focus on members' needs by aiming to maintain the purchasing power of members' savings and protect the value of accumulated assets as members approach retirement.
- ii. To avoid over-complexity in investment in order to keep administration costs, member understanding and member charges to a reasonable level.

Default Investment Strategies

Since inception to April 2016, the Trustees have made available to members two default strategies: the Cautious Lifestyle profile and the Balanced Lifestyle profile. For members formerly in the Spinnaker Master Trust, which was merged into the Salvus Master Trust in February 2017, different default options were used, as set out in **Appendices B and C**.

Prior to April 2016, employers within Salvus who are advised by Independent Financial Advisers were able to choose the Balanced Lifestyle profile as the default strategy in respect of their employees within Salvus. The Balanced Lifestyle reflects a higher expected risk/return profile overall than the Cautious Lifestyle. Full detail in respect of the Cautious and Balanced Lifestyle profiles is set out in **Appendices B and C**.

Since April 2016, only the Cautious Lifestyle profile is available as the default strategy for new employers/members. For members joining the non-contributory section as a bulk transfer, a decision is made as to the appropriate default on a case-by-case basis.

Aims and Objectives of the default strategies

The Trustees' aims and objectives in relation to the default strategies are to support members' investment needs where members do not choose any option. Broader aims and objectives in relation to the default strategies are set out in Section 3, titled "Investment Objectives".

Trustees' policies in relation to the default strategies

i. The kinds of investment to be held

The default strategies invest in differing proportions of UK and overseas equity, fixed interest and index-linked bonds and cash, depending on members' term to retirement. The funds held within the default strategies are shown in **Appendix B**.

ii. The balance between different kinds of investments

The balance between different investments within the default strategies is shown in **Appendices B and C**. The Trustees are satisfied that, taken in aggregate, the funds offered are appropriate for different categories and ages of members.

iii. Risks (including the ways in which risks are to be measured and managed)

Risks applicable to Salvus as a whole are shown in Section 9, titled "Risks". All of the risks shown, including how they are measured and managed, are relevant to the default strategies.

iv. Expected return on investments

Objectives for each fund used within the default strategies are shown in Appendix B.

The default strategies' equity funds are expected to produce long term returns above price inflation. The objectives of including the cash and bond funds are to provide for the payment of the tax-free lump sum on retirement and to reduce volatility relative to the cost of purchasing an annuity, rather than to achieve a specified 'real' or 'nominal' return. The Trustees are in the process of reviewing these objectives (including the continued suitability of annuity targeting), with any changes likely to be implemented in mid to late 2019 (at which point this SIP will be revised).

v. Realisation of investments

Funds used within the default strategies are unitised, pooled funds which are dealt daily.

vi. Social, environmental or ethical considerations

The extent to which the Trustees consider social, environmental or ethical issues, and the exercise of rights within the default strategies is shown in the **Section 10**, titled “Other Risks”

vii. Exercise of rights (including voting rights) attaching to the investments

The extent to which the Trustees consider the exercise of rights within the default strategies is shown in the **Section 10**, titled “Other Risks”.

Best interests of members and beneficiaries

In designing the default strategies, the Trustees have considered members’ changing risk and return requirements over time and member outcomes. The Trustee believes the default strategies are in the best interest of the majority of members and beneficiaries, and undertakes periodic reviews on the suitability of the strategies.

As at the date of this SIP, the Trustees are carrying out a review of the suitability default strategies and self-select fund options with their Investment Advisor. Any resultant changes are likely to be implemented in late 2019, at which time an updated SIP will come into effect.

Investment Strategy

Having due regard for the objectives and the members of Salvus, a number of investment options have been made available. Members can choose to invest their contributions in one or more of these investment options, or may rely on the default strategies, as detailed in **Appendix B**.

The Trustees will ensure that each member's investments are invested in accordance with the fund options selected by the member, or in the absence of an investment choice, the applicable default strategy.

Investment Options

The investment options include the default strategies (Cautious Lifestyle and Balanced Lifestyle, and the default funds used within the legacy Spinnaker Master Trust) and self-directed "**self-select**" options.

The Cautious and Balanced Lifestyle profiles involve switching members across different underlying funds as they approach retirement. The switching is designed to adjust the risk and return profile over time, thereby taking account of members' changing risk profiles as they approach retirement.

In addition to the options outlined above, there are a number of legacy Equitable Life investments within Salvus, inherited from a number of participating employers and former schemes that have transferred to Salvus. These include with-profits and unit linked funds. These funds are closed to new contributions and switches in of member assets.

The Trustees have delegated the day-to-day investment of Salvus' assets to professional investment managers.

Details of the investment options are set out in **Appendix B**.

Performance Objectives

The objectives of the funds available within the investment options are set out in **Appendix B**.

Diversification

The choice of investment options for members is designed to ensure that members are able to choose investments that are adequately diversified and suitable for their profile. The Trustees monitor the investment options regularly to ensure that they are comfortable with the choice of funds offered to members.

Suitability

The suitability and range of investment options, including the default strategies, will be reviewed regularly. As at the date of this SIP, the Trustees are carrying out a review of the suitability default strategies and self-select fund options with their Investment Advisor. Any resultant changes are likely to be implemented in late 2019, at which time an updated SIP will come into effect.

Members are responsible for choosing which of the self-select funds is most appropriate based on their own individual circumstances, or otherwise relying on the applicable default strategy for the investment of their own and their employer's contributions.

Strategy Implementation

Investment Managers

The Trustees have appointed Aegon Asset Management (“Aegon”) to provide the pooled funds that make up Salvus’ investment options. The Trustees have selected a range of investment options for Salvus members. Full details are set out in **Appendix B**.

Administrator

Member administration services are provided to the Trustees by HS Administrative Services Ltd.

Fund Options

The range of funds offered to members has been chosen to give members a diversified range of investments from which they can select according to their individual circumstances. The funds available to members are detailed in **Appendix B**.

Investment of Contributions

A member’s contributions will be invested in line with their selected choice of funds. Where a member has not made an active selection, their contributions will be invested in the applicable default strategy (detailed in **Appendix B**).

Transitions

The Trustees, in conjunction with their advisors, will look to mitigate the potential risks and costs to members as a result of any investment transitions to the best of their ability.

Monitoring

Managers

The Trustees, or their advisors on behalf of the Trustees, will monitor the performance of the Investment Managers against their own benchmarks.

The Trustees, or their advisors on behalf of the Trustees, will regularly review the activities of the Investment Managers to satisfy themselves that each Investment Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage Salvus' assets.

As part of this review, the Trustees will consider whether or not each Investment Manager:

- Is carrying out its function competently. The Trustees will evaluate the Investment Manager based on, amongst other things:
 - The Investment Manager's performance versus its benchmark.
 - The level of risk within the portfolios given any specified risk tolerances.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.
- If the Trustees are not satisfied with an Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees' requirements, the Trustees will remove the Investment Manager and appoint another.

Advisors

The Trustees will monitor the advice given by their advisors on a regular basis.

Statement of Investment Principles

The Trustees will review this SIP at least triennially, or as soon as is practical following any changes to the investment strategy, and modify it with consultation from the relevant advisors and the Employer if deemed appropriate. There will be no obligation to change this SIP, any Investment Manager, Platform Manager or advisor as part of such a review.

Trustees' Recordkeeping

The Trustees maintain a record of all investment related decisions they have taken, together with the rationale in each case.

Fees

Member charges

There are three sources of charges applicable to members:

- i. Investment management charges
- ii. Aegon platform charge
- iii. Salvus charge

Fees are charged as a proportion of the size of assets invested. The charges have been negotiated and will continue to be reviewed regularly. Member charges are set out in each employer's Investment Choices document.

Advisors

Fees paid to the advisors are based either on actual time spent and hourly rates for relevant individuals or on fixed fees agreed in advance for specifically defined projects.

Value for Members

The Trustees review, as far as possible based on the data available, all sources of fees levied on members' accounts (including management charges, additional expenses and platform charges as appropriate) to ensure value for members is present. The Trustees consider, among other items, the absolute level of charges, the competitiveness of applicable charges relative to the marketplace and the levels of service provided by each of the advisors and Managers.

The Trustees also review, as far as is reasonable and practical, transaction costs paid by members to assess the extent to which these represent good value for money.

The Trustees' conclusions in respect of value for members are documented in Salvus' annual report and accounts.

Risks

The Trustees recognise a number of key risks to themselves and to the members of Salvus:

- i. **Value for Members Risk** – the risk that Salvus fails to offer value for members. This is addressed through regular 'value for members' reviews.
- ii. **Inflation Risk** – the risk that the purchasing power of their investment account is not maintained. To try to manage this risk, the Trustees have offered a range of funds reflecting asset classes expected to provide long term returns in excess of price inflation.
- iii. **Pension Purchase Risk** – the risk that the value of pension benefits that can be purchased by a given defined contribution amount is not maintained. This risk cannot easily be mitigated as it depends on market conditions for annuity rates at retirement. However, the default strategies (aside from the default funds used within the legacy Spinnaker Master Trust) gradually de-risk as members approach retirement, including an increased allocation to bonds up to five years from retirement which should provide an extent of annuity price matching. Bond funds are also available within the self-select fund range for those members who would like to hedge annuity price movements more explicitly.

For the default funds used within the legacy Spinnaker Master Trust, members joining with greater than two years to expected retirement date were defaulted into an option with a 50% allocation to gilts and corporate bonds. This allocation would be expected to provide an element of matching versus annuity prices.
- iv. **Capital Risk** – the risk that the value of any element used to provide a cash sum at retirement is not maintained. To try to mitigate this risk, the default strategies (aside from the default funds used within the legacy Spinnaker Master Trust) de-risk into cash starting five years from retirement. The self-select fund range includes a cash fund option for members prioritising capital preservation.

For the default funds used within the legacy Spinnaker Master Trust, members joining with less than two years to expected retirement date were defaulted into the Cash Fund, with a view to preserving capital.
- v. **Active Manager Risk** – the risk that the active investments underlying Salvus' investment options underperform due to the underlying investment manager underperformance. The Trustees have mitigated this risk by taking advice from its Investment Advisor in relation to active asset management. The Investment Advisor considers a wide range of funds; diversified across asset class, sub asset class and investment manager to reduce the active manager risk.
- vi. **Communication Risk** – the risk that communication to members is misleading or unclear and leads to inappropriate decisions being made. This is addressed through the Trustees receiving advice from their advisors and regular monitoring and updates, where appropriate, of member communications.
- vii. **Inappropriate Member Decision** – the risk that members make inappropriate decisions regarding their investments. This is addressed where possible through communication to members and the recommendation that members seek independent financial advice. The Trustees have also offered default strategies (aside from the default funds used within the legacy Spinnaker Master Trust) with a "lifestyling element" designed to phase members into lower risk investments as they approach retirement.
- viii. **Organisational Risk** – the risk of inadequate internal processes leading to problems for Salvus. This is addressed through a regular monitoring of the Investment Managers and advisors.
- ix. **Liquidity Risk** – the risk that members are not able to realise the value of their funds when required. The Trustees have addressed this risk by only offering funds which are considered liquid.

The importance of each risk varies with time. Inflation is important throughout the whole period to retirement whereas pension purchase risk and capital risk become more significant as retirement approaches, depending on how the member chooses to access their pension saving at retirement.

| Salvus Master Trust – Statement of Investment Principles

The Trustees have provided default strategies that aim to address the above risks through a member's life. The Trustees may vary the underlying asset allocation and investment managers within these strategies from time to time in response to changing market conditions and manager developments.

The Trustees also provide members with a range of self-select investment options into which they may direct their contributions so as to allow each member to determine the appropriate mix of investments based on their own attitude to risk, terms to retirement and investment objective.

In addition to the risks noted above, the Trustees also recognise the options they have selected are subject to underperformance risk. This is addressed through providing options with appropriate diversification and through regular monitoring of the active managers' performance, processes and capabilities with respect to their mandate.

The Trustees recognise that an efficient process for identifying, evaluating, managing and monitoring risks needs to be in place for Salvus. The Trustees will identify and assess the impact of any risk, what controls can be put in place to manage the risk and review both the individual risks and the effectiveness of the risk management process as a whole.

The Trustees will keep these risks and how they are managed under regular review.

Other Risks

Corporate Governance

The Trustees' policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Investment Managers on behalf of the Trustees having regard to the best financial interests of the beneficiaries. This policy is reviewed regularly.

Social, Environmental and Ethical Issues

The Trustees are seeking to maximise overall investment returns subject to an acceptable level of risk. Social, environmental or ethical considerations are not directly taken into account by the Trustees in the selection, retention and realisation of investments. This policy is reviewed regularly.

However, the Trustee does make available an ethically managed fund (Aegon Ethical) and Shariah-compliant fund (Scottish Equitable HSBC Life Amanah) for members who wish to invest with regard to social, environmental, ethical and/or religious issues within the self-select options and review options on a regular basis.

Appendix A - Responsibilities

Trustees

The main investment related responsibilities of the Trustees include:

- i. Reviewing, at least triennially (or following significant changes to the investment strategy), the content of this SIP and modifying it if deemed appropriate.
- ii. Reviewing the investment policy for Salvus in terms of providing a range of funds from which members may choose to invest (see **Appendix B**).
- iii. Assessing the quality of the performance and process of the Investment Managers by means of regular reviews of the investment results and other information, through meetings and written reports.
- iv. Monitoring compliance of the investment arrangements with the SIP on an ongoing basis.
- v. Appointing and dismissing Investment Managers.
- vi. Assessing the performance of their advisors.
- vii. Consulting with the Employer when reviewing investment policy issues.
- viii. Making this SIP publically available.

Investment Advisor

The Investment Advisor will be responsible for, amongst other things:

- i. Participating with the Trustees in reviews of this SIP.
- ii. Advising the Trustees of any changes in respect of Salvus' Investment Managers that could affect the interests of Salvus.
- iii. Advising the Trustees of any changes in the investment environment that could either present opportunities or threats to Salvus.
- iv. Undertaking reviews of Salvus' investment arrangements including reviews of the Salvus' structure, current Investment Managers, and selection of new Investment Managers as appropriate.

Legal Advisor

The Legal Advisor will be responsible for, amongst other things:

- i. Acting on Trustee instructions to ensure legal compliance including those in respect of investment matters.

Appendix B – Investment Options

This Appendix provides detail on the investment choices for members alongside return objectives and risk management guidelines.

The Trustees provide two **default strategies** (Cautious Lifestyle and Balanced Lifestyle) for members who do not make an active investment decision. For members formerly in the Spinnaker Master Trust, two different default options were used, as detailed below.

Since April 2016, only the Cautious Lifestyle is available as the default strategy for new employers/members. Prior to April 2016, employers within Salvus who are advised by Independent Financial Advisers were able to choose the Balanced Lifestyle as the default strategy in respect of their employees within Salvus.

For these options, the asset allocation automatically changes as members approach retirement, aiming to reflect members' changing risk and return requirements.

Alternatively, members can choose from a range of **self-select** investment options, which allows them to determine the appropriate mix of investments based on their own attitude to risk, term to retirement and investment objective.

Default strategy 1: Cautious Lifestyle

This default strategy is applicable to employers within Salvus who are not advised by Independent Financial Advisers, or who entered Salvus after April 2016 inclusive.

Where a member does not make a specific investment choice, they will be automatically invested in the Cautious Lifestyle profile. This phases a member's assets through different funds (set out in the table below) as retirement approaches.

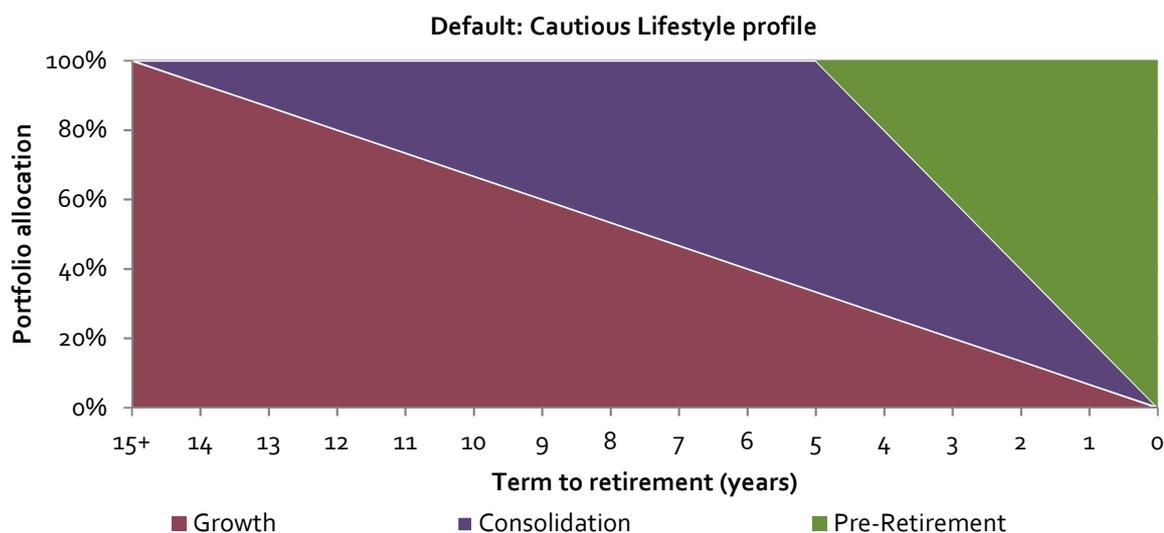
Objectives for the funds underlying the Cautious Lifestyle are set out in the table within the "Self-select fund options" sub-section below.

Investment name	Investment	Asset class	Investment style
High Equitable BlackRock Aquila UK Equity Index	Companies	Equities	Global
High Equitable BlackRock Aquila World (Ex-UK) Equity Index	Equities	Equities	Global
High Equitable BlackRock Aquila Over 5 Years UK Index-Linked Gilt Index	Index-Linked Gilts	Bonds	Global
BlackRock UK Gilts All Stocks Tracker	Bonds	Bonds	Global
High Equitable BlackRock Aquila Corporate Bond Index All Stocks	High Corporate Bond	Bonds	Global
Low Risk Cash	Fixed Income & Treasury	Bonds	Global

The Cautious Lifestyle profile is split into three stages: Growth, Consolidation and Pre-Retirement. The funds within each stage are set out in the table below:

Fund name	Cautious Lifestyle stage		
	Growth	Consolidation	Pre-Retirement
h Equitable BlackRock Aquila UK Equity Index	35%	30%	-
h Equitable BlackRock Aquila World (Ex-UK) Equity Index	45%	-	-
h Equitable BlackRock Aquila Over 5 Years UK Index-Linked Gilt Index	4%	-	-
Rock) UK Gilts All Stocks Tracker	12%	30%	-
h Equitable BlackRock Aquila Corporate Bond Index All Stocks	4%	40%	-
o) Cash	-	-	100%

The progression of these stages through the Cautious Lifestyle profile is shown in the diagram below. A more detailed breakdown of the phasing a member would experience across the underlying funds is shown in **Appendix C**.



Default strategy 2: Balanced Lifestyle

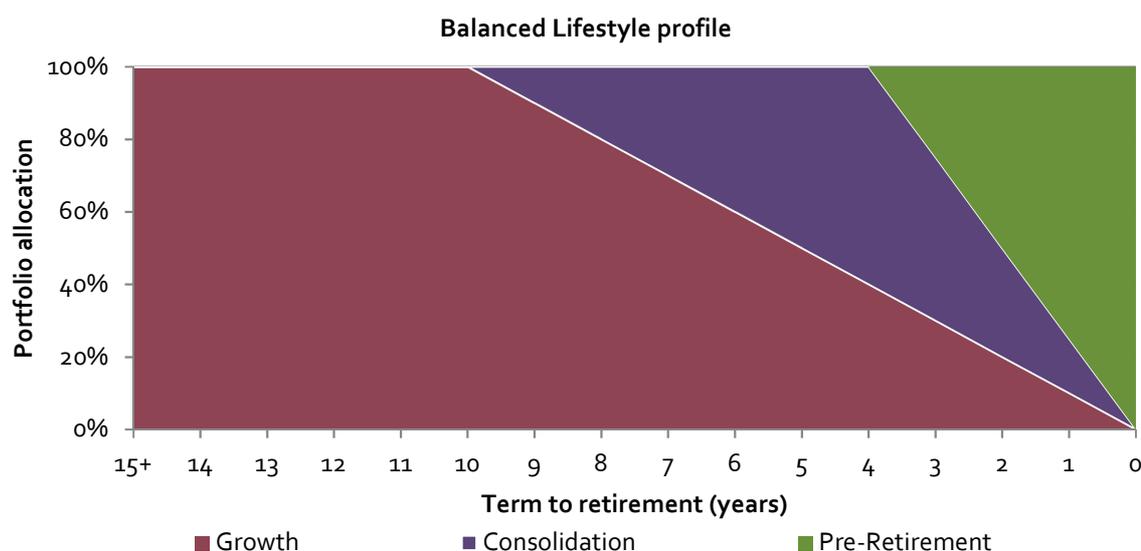
An alternative lifestyle profile made available is the Balanced Lifestyle profile. This profile is suitable for members who wish to be de-risked automatically as they approach retirement, but who have a higher risk appetite than is reflected by the Cautious Lifestyle profile.

Prior to April 2016, employers within Salvus who are advised by Independent Financial Advisers were able to choose the Balanced Lifestyle as the default strategy in respect of their employees within Salvus. The Balanced Lifestyle reflects a higher expected risk/return profile overall than the Cautious Lifestyle.

Similarly to the Cautious Lifestyle profile, the Balanced Lifestyle profile is split into Growth, Consolidation and Pre-Retirement stages. However, the underlying fund allocation within each stage differs to the Cautious Lifestyle. The funds within each stage for the Balanced Lifestyle are set out in the table below:

Name	Balanced Lifestyle stage		
	Growth	Consolidation	Pre-Retirement
h Equitable BlackRock Aquila UK Equity Index	20%	50%	-
h Equitable BlackRock Aquila World (Ex-UK) Equity Index	70%	20%	-
h Equitable BlackRock Aquila Over 5 Years UK Index-Linked Gilt Index	-	-	-
tock) UK Gilts All Stocks Tracker	5%	10%	-
h Equitable BlackRock Aquila Corporate Bond Index All Stocks	5%	20%	-
) Cash	-	-	100%

The progression of these stages through the Balanced Lifestyle profile is shown in the diagram below. A more detailed breakdown of the phasing a member would experience across the underlying funds is shown in **Appendix C**.



Default strategy 3 (in respect of former Spinnaker Master Trust members)

For members who joined the Spinnaker Master Trust with more than two years until expected retirement date, the default option was the Aegon BlackRock 50/50 Bond & Equity Fund. Its objective is to provide long-term capital growth by investing approximately 50% in UK and overseas equities and 50% split equally between gilts and sterling investment-grade corporate bonds that have maturity periods of 15 years or longer. Of the equities, 50% is in the UK and 50% is split equally between the USA, Europe (ex-UK) and the Far East.

Default strategy 4 (in respect of former Spinnaker Master Trust members)

For members who joined the Spinnaker Master Trust with less than two years until expected retirement date, the default option was the Aegon Cash Fund. The fund aims to outperform the LIBOR (London Inter-Bank Offer Rate) 3 Months, before charges.

Self-select fund options

The self-select options allow members to choose from a selection of funds based on their own attitude to risk, term to retirement and investment objective. The funds that may be made available to members are set out below.

Fees are charged as a proportion of the size of assets invested. The charges have been negotiated and will continue to be reviewed regularly. Member charges are set out in each employer's Investment Choices document.

Fund	Target objective	Investment style
Scottish Equitable BlackRock Aquila UK Equity Index	The fund aims to achieve a return consistent with that of the FTSE All-Share Index	Passive
Scottish Equitable BlackRock Aquila World (Ex-UK) Equity Index	The fund aims to match the performance of the FTSE All-World Developed (ex-UK) Index	Passive
Scottish Equitable BlackRock Aquila Over 5 Years UK Index-Linked Gilt Index	The fund aims to achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index	Passive
(BlackRock) UK Gilts All Stocks Tracker	The fund aims to achieve a total return (a combination of income plus capital growth) for investors by tracking closely the performance of the FTSE Actuaries UK Gilts All Stocks Index	Passive
Scottish Equitable BlackRock Aquila Corporate Bond Index All Stocks	The fund aims to achieve a return consistent with the Markit iBoxx Sterling Non-Gilts Index	Passive
(AEGON) Cash	The fund aims to outperform the LIBOR (London Inter-Bank Offer Rate) 3 Months, before charges	Active
Scottish Equitable BlackRock Aquila Over 15 Years Corporate Bond Index	The fund aims to achieve a return consistent with the Markit iBoxx Sterling Non-Gilts Over 15 Years Index	Passive
Scottish Equitable BlackRock Aquila Over 15 Years UK Gilt Index	The fund aims to match the performance of the FTSE UK Gilts Over 15 Years Index	Passive
Scottish Equitable BlackRock Aquila Pacific Rim Equity Index	The fund aims to achieve a return consistent with the return of the FTSE All-World Developed Asia Pacific ex-Japan Index	Passive
Scottish Equitable BlackRock Aquila Japanese Equity Index	The fund aims to achieve a return that is consistent with that of the FTSE All-World Japan Index	Passive
Scottish Equitable BlackRock Aquila US Equity Index	The fund aims to match the performance of the FTSE All-World USA Index	Passive
Scottish Equitable BlackRock Aquila European Equity Index	The fund aims to achieve a return consistent with that of the FTSE All-World Developed Europe ex UK Index	Passive
(BlackRock) Emerging Markets Equity Tracker	The fund aims to closely track the performance of the FTSE All World-Emerging Index	Passive
(BlackRock) Balanced Passive	The fund aims to broadly match the performance of the Association of British Insurers (ABI) Mixed Investment 40%-85% Shares sector average	Passive
Scottish Equitable L&G Pre-Retirement	The fund aims to provide diversified exposure to assets that reflect the investments underlying a typical annuity product	Active

Fund	Target objective	Investment style
Blackrock Aquila Life Market Advantage	<p>The fund invests in a diversified mix of asset classes based on target exposures to fundamental economic risk factors. By managing exposure during market extremes, the fund seeks to deliver risk in line with target while reducing downside risk.</p> <p>The fund does not have a formal benchmark, however its performance comparator is: 60% MSCI World Index GBP Hedged, 40% BarCap Global Aggregate Bond Index GBP Hedged.</p>	Active
(Aegon) Distribution	The fund aims to outperform the ABI Mixed Investment 20-60% Shares sector median, net of fees	Active
Scottish Equitable HSBC Life Amanah	The fund aims to track the performance of the Dow Jones Islamic Titans 100 Index	Passive
Scottish Equitable M&G Property Portfolio	The fund aims to maximise long-term total return (the combination of income and capital growth) by investing in mainly UK commercial property. Its benchmark is the Investment Association Property peer group	Active
Aegon MI Savings (Low)	<p>The fund invests in a diversified portfolio and aims for long-term growth. The manager believes it could provide returns greater than inflation over the longer term.</p> <p>It aims to suit someone with a low or below-average tolerance for risk who is prepared to see some, limited movement both up and down in their fund value in the hope of achieving greater long-term growth.</p>	Active
Aegon MI Savings (Medium)	<p>The fund invests in a diversified portfolio and aims for long-term growth. The manager believes it could provide returns greater than inflation over the longer term.</p> <p>It aims to suit someone with a medium or average tolerance for risk who is prepared to see some movements both up and down in their fund value in the hope of achieving greater long-term growth.</p>	Active
Aegon MI Savings (High)	<p>The fund invests in a diversified portfolio and aims for long-term growth. The manager believes it could provide returns greater than inflation over the longer term.</p> <p>It aims to suit someone with an above-average tolerance for risk who is prepared to see movements both up and down in their fund value in the hope of achieving greater long-term growth.</p>	Active
(Aegon) Ethical	<p>The fund aims to provide long-term capital growth by investment in equities (shares) and equity type securities of companies based in the UK, mainly conducting business in the UK or listed on the UK stock market, which meet the fund's predefined ethical criteria. The application of its ethical criteria means the fund may have a bias towards small and medium-sized companies.</p> <p>The fund's benchmark is the FTSE All Share index.</p>	Active

Fund	Target objective	Investment style
Scottish Equitable M&G Recovery	<p>The fund aims to achieve long-term capital growth by investing mainly in a diversified range of investments issued by companies which are out of favour, in difficulty or whose future prospects aren't fully recognised by the market. The fund manager takes a long-term view with a typical holding period of five years or more. Developing a constructive dialogue with company management is a fundamental part of the investment process.</p> <p>The fund's benchmark is the FTSE All Share index.</p>	Active

Legacy Equitable Life options

In addition to the options outlined above, there are a number of legacy Equitable Life investment options within Salvus, inherited from a number of participating employers. These include with-profits and unit linked options. These options are closed to new contributions and switches in of member assets.

APPENDIX B – Fund Charges

Fund Name	AMC	AE (as %) Per annum	TER
AGN BR>15Y CORP BOND	0.44%	0.17%	0.61%
AGN BR>15Y CORP BOND	0.8%	0.17%	0.97%
AGN BR>15Y CORP BOND	0.29%	0.17%	0.46%
AGN BR>15Y CORP BOND	0.34%	0.17%	0.51%
AGN BR>15Y CORP BOND	0.65%	0.17%	0.82%
AGN BR>15Y CORP BOND	0.49%	0.17%	0.66%
AGN BR>15Y CORP BOND	0.45%	0.17%	0.62%
AGN BR>15Y CORP BOND	0.50%	0.17%	0.67%
AGN BR>15Y CORP BOND	0.60%	0.17%	0.77%
AGN BR>15Y CORP BOND	0.75%	0.17%	0.92%
AGN BR CORP BD INDEX	0.80%	0.18%	0.98%
AGN BR CORP BD INDEX	0.65%	0.18%	0.83%
AGN BR CORP BD INDEX	0.44%	0.18%	0.62%
AGN BR CORP BD INDEX	0.29%	0.18%	0.47%
AGN BR CORP BD INDEX	0.34%	0.18%	0.52%
AGN BR CORP BD INDEX	0.49%	0.18%	0.67%
AGN BR CORP BD INDEX	0.45%	0.18%	0.63%
AGN BR CORP BD INDEX	0.50%	0.18%	0.68%
AGN BR CORP BD INDEX	0.60%	0.18%	0.78%
AGN BR CORP BD INDEX	0.75%	0.18%	0.93%
UK GILTS AS TRACKER	0.8%	0.11%	0.91%
UK GILTS AS TRACKER	0.65%	0.11%	0.76%
UK GILTS AS TRACKER	0.44%	0.11%	0.55%
UK GILTS AS TRACKER	0.29%	0.11%	0.40%
UK GILTS AS TRACKER	0.34%	0.11%	0.45%
UK GILTS AS TRACKER	0.49%	0.11%	0.60%
UK GILTS AS TRACKER	0.45%	0.11%	0.56%
UK GILTS AS TRACKER	0.50%	0.11%	0.61%
UK GILTS AS TRACKER	0.60%	0.11%	0.71%
UK GILTS AS TRACKER	0.75%	0.11%	0.86%
AGN BR >5YR I-L GILT	0.8%	0.08%	0.88%
AGN BR >5YR I-L GILT	0.65%	0.08%	0.73%
AGN BR >5YR I-L GILT	0.44%	0.08%	0.52%
AGN BR >5YR I-L GILT	0.29%	0.08%	0.37%
AGN BR >5YR I-L GILT	0.34%	0.08%	0.42%
AGN BR >5YR I-L GILT	0.49%	0.08%	0.57%
AGN BR >5YR I-L GILT	0.45%	0.08%	0.53%
AGN BR >5YR I-L GILT	0.50%	0.08%	0.58%
AGN BR >5YR I-L GILT	0.60%	0.08%	0.68%
AGN BR >5YR I-L GILT	0.75%	0.08%	0.83%
AGN BR >15Y UK GILT	0.45%	0.08%	0.53%
AGN BR >15Y UK GILT	0.80%	0.08%	0.88%
AGN BR >15Y UK GILT	0.44%	0.08%	0.52%

AGN BR >15Y UK GILT	0.65%	0.08%	0.73%
AGN BR >15Y UK GILT	0.5%	0.08%	0.58%
AGN BR >15Y UK GILT	0.29%	0.08%	0.37%
AGN BR >15Y UK GILT	0.6%	0.08%	0.68%
AGN BR >15Y UK GILT	0.49%	0.08%	0.57%
AGN BR >15Y UK GILT	0.75%	0.08%	0.83%
AGN BR >15Y UK GILT	0.34%	0.08%	0.42%
AGN BR WORLD EXUK	0.45%	0.12%	0.57%
AGN BR WORLD EXUK	0.50%	0.12%	0.62%
AGN BR WORLD EXUK	0.6%	0.12%	0.72%
AGN BR WORLD EXUK	0.75%	0.12%	0.87%
AGN BR WORLD EXUK	0.8%	0.12%	0.92%
AGN BR WORLD EXUK	0.44%	0.12%	0.56%
AGN BR WORLD EXUK	0.29%	0.12%	0.41%
AGN BR WORLD EXUK	0.34%	0.12%	0.46%
AGN BR WORLD EXUK	0.65%	0.12%	0.77%
AGN BR WORLD EXUK	0.49%	0.12%	0.61%
SE Cash	0.45%	0.03%	0.48%
SE Cash	0.50%	0.03%	0.53%
SE Cash	0.60%	0.03%	0.63%
SE Cash	0.75%	0.03%	0.78%
SE Cash	0.8%	0.03%	0.83%
SE Cash	0.65%	0.03%	0.68%
SE Cash	0.49%	0.03%	0.52%
SE Cash	0.44%	0.03%	0.47%
SE Cash	0.29%	0.03%	0.32%
SE Cash	0.34%	0.03%	0.37%

Appendix C – Retirement Bridge Funds Transaction Costs

POOLED FUND COST COLLECTION TEMPLATE

For use with investments in pooled funds

*All figures in % of average NAV pa
unless specified*

Scheme name	The Salvus Master Trust
Share class name	
Date of report	01 Jan 2018 to 31 Dec 2018
Currency of report	GBP

Investment activity (GBP unless specified)

	Total	Equity	Bonds	Property	Pooled funds
Opening assets	125,364.64				
Closing assets	352,333.69				
Purchases	0				
dSales	0				
Turnover (% pa)					

Asset Allocation

	AB Retirement Strategies Fund 2026-2028	AB Retirement Strategies Fund 2032-2034	AB Retirement Strategies Fund 2035-2037	AB Retirement Bridge 1948 Drawdown Strategy 0.85	AB Retirement Bridge 1950 Drawdown Strategy 0.85	AB Retirement Bridge 1951 Drawdown Strategy 0.85	AB Retirement Bridge 1953 Drawdown Strategy 0.85
L9Fund							
Opening Allocation Value	-	-	-	49,796.11	75,568.53	-	-
Closing Allocation Value	126,876.67	18,961.79	17,059.88	45,928.57	63,521.93	30,866.13	49,118.72
day count	287	49	46	365	365	248	26

