

Statement regarding DC Governance 2018

1. The objective of this statement

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 statutory DC governance standards. The Trustees have prepared the statement in accordance with the requirements of the Occupational Pension Schemes (Charges and Governance) Regulation 2015. A summary of the year is included in 'A view from the Chair' and will be added to the Salvus website <http://www.salvustrust.com>.

The statement relates to the calendar year 1 January 2017 to 31 December 2017. 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.

2. Scheme Management

Trustee Knowledge and Understanding

During 2017 there were three experienced professional independent trustees ('the Trustees').

- Christina Bowyer, representing HR Trustees Limited - Christina is a qualified lawyer specialising in pensions and trust law since 2005. Christina completed formal annual professional development training as specified by the Solicitors Regulatory Authority and to meet the demands of HR Trustees accreditation which is audited by KPMG. Christina is a member of the Association of Pension Lawyers and has been an Associate of the Pensions Management Institute since 1992.
- Nick Boyes, representing Able Governance Ltd - Nick has been involved in the trusteeship and governance of occupational pension schemes since 1992, having previously worked in the pensions departments of a number of insurance companies. Nick is a qualified teacher of economics and attained the Associateship of the Chartered Insurance Institute by the pensions route, and the Diploma in Pensions Management from the PMI, along with other pension-related qualifications. In addition to representing his previous company, Alexander Forbes Trustee Services, in his capacity as an independent trustee to pension schemes of all kinds, Nick has been a frequent contributor to the pensions press and assisted the Pensions Regulator with its acclaimed Trustee Toolkit. Nick maintains his pensions technical knowledge by attending industry events, adviser briefings and regional PMI and Pension & Lifetime Savings Association meetings.
- Michael Clark, representing Clark Benefit Consulting - Michael has more than 30 years' pensions experience specialising in scheme management and administration. Before setting up his own company, Michael headed up a team of professional trustees. Michael has more than 10 years' experience of being a trustee and as a member of an Independent Governance Committee. Michael qualified as an associate of the Pensions Management Institute (PMI) in 1990 and was subsequently elected to a Fellow. In addition, he is a Fellowship Ambassador for the PMI, holds the Award in Pensions Trusteeship from the PMI and is a member of the Association of Professional Pension Trustees. As such, Michael is required to complete formal annual professional development.

None of the three professional trustees are affiliated to Goddard Perry Consulting Limited (Goddard Perry). The appointment process for non-affiliated Scheme trustees is open and transparent including the public advertising of new roles and interview process led by Goddard Perry. Each of the Trustees has experience of working with defined contribution pension schemes acting as Trustee.

In accordance with Sections 247 and 248 of the Pensions Act 2004 and the Pensions Regulator's Code of Practice 07, all of the Trustees (acting by the relevant directors) have and maintain their relevant Trustee Knowledge and Understanding and did so during 2017.

In January 2018, Christina Bowyer left HR Trustees to return to legal practice. On 5 January 2018, Christina Bowyer resigned as a Trustee and was replaced by Andrew Blackman, deputy managing director of Goddard Perry Consulting Limited. Andrew has over 30 years' experience in the pensions industry and is responsible for the day-to-day delivery of the services which Goddard Perry provides for its clients. Andrew is able to provide a valuable insight for the Trustees into the operation of the Scheme which ensures that high governance standards are maintained at all times.

The Trustees regularly attend professional pensions events and write articles as well as ensuring that they meet the Continued Professional Development requirements of their relevant professional bodies. Examples of the Continued Professional Development undertaken by the Trustees include attendance at the following industry training events:

- DC governance issues provided by Professional Pensions magazine
- Investment issues for pension schemes provided by River and Mercantile (formerly P-Solve)
- The impact of the General Data Protection Regulation provided by Pinsent Masons and Sackers
- Cyber Security issues for pension schemes provided by the Institute of Directors
- Behavioural economics in member choices and member engagement provided by LCP

All of the Trustees are conversant with the Scheme rules, the Scheme's Statement of Investment Principles and other Scheme policies that are in place. They familiarise themselves with these documents, either as part of their work as a Scheme Trustee or on an ad hoc basis, and review them from time to time as required to ensure the good governance of the Scheme.

The Trustees have an in-depth knowledge of the law relating to pensions and trusts and principles underpinning the investment of the Scheme assets and funding of occupational pension schemes. All of the Trustees have completed the Pensions Regulator's Trustee Toolkit.

A training log is maintained for each of the Trustees and any training needs are identified and addressed as and when required. The log is reviewed annually by the Trustees. A Trustee skills matrix is in place to assist the Trustees to identify any gaps in the knowledge and understanding across the Trustee board.

River and Mercantile, formerly PSolve, were formally appointed as the Trustees investment advisers in June 2017. There have not been any other changes to the Trustees advisers during the year. The Trustees believe that all of the Scheme advisers contribute and strengthen the Trustees' effectiveness, for instance, the assistance River and Mercantile have given in providing advice in respect of the Scheme default funds for members, and the assistance from ARC Pensions Law, our legal advisers in ensuring compliance with the

requirements of the Pensions Regulator. For example, regarding the transfer of the Complete Pension Trust into Salvus.

As a result of the Trustees' collective in-depth knowledge and understanding, and taking into account the professional advice available to them, the Trustees believe that they have the skills and experience to enable them to properly exercise their functions as Trustees of the Scheme. The Trustees are working with the sponsor in its refinement of the business plan that will form part of the scheme's master trust authorisation application, with a view to, amongst other things, measuring their performance against that plan.

Conflicts of interest

Actual or potential conflicts of interest are considered as a standing agenda item at the start of each Trustee meeting. Should any conflicts be identified, the required action is agreed by the Trustees at the meeting in accordance with the Scheme's conflict of interest protocol. This includes exclusion from the meeting for discussion of a particular agenda item. Following the appointment of Andrew Blackman, the Trustees considered the conflicts of interest protocol and agreed that no changes were required. To date, no such conflicts of interest have occurred.

Risk register

As part of the Trustees' overall review of the Scheme administration carried out by HS Admin, the Trustees have continued to develop a Risk Register to more fully understand, manage and monitor risks within the Scheme. The Risk Register is kept under constant review and discussed at each Trustee meeting.

There are two key risks for all master trusts. The first is the business failure of the sponsor; the second is the failure of the administration of member benefits. The Trustees have, and continue to work with, Goddard Perry and HS Admin as the Scheme administrator to understand, monitor and manage the overall governance of the Scheme on behalf of the membership.

3. Investment governance and Scheme default funds

The Scheme currently has two default funds each with a five-year track record, which are the Cautious Lifestyle and the Balanced Lifestyle. The availability of two default funds permits those employers who are being advised to select that which is more appropriate for their employees. Details of the investment strategy and investment objectives of the default funds are contained in the Scheme's latest Statement of Investment Principles which is appended to the statement.

The default funds follow a traditional approach to de-risking on a 10 or 15 years from retirement basis, aiming for a 100% cash position to mitigate the risk of a fall in capital values for members prior to and at retirement. In addition, a wide range of alternative funds is available to members who wish to make their own investment decisions.

The default funds currently have a significant allocation to UK and overseas equities and have performed well, with an annualized growth rate over the last three years of 10.7% for the Cautious Lifestyle fund, and 12.5% for the Balanced Lifestyle fund.

During 2017 the Trustees, in conjunction with their investment advisers River and Mercantile, reviewed the investment strategy. Following this review process and discussions with the Scheme sponsor a revised investment strategy has been agreed.

The revised strategy will reflect:

- A single lifestyle strategy, which will be the default arrangement
- Increased diversification between asset classes within the default arrangement in order to reduce potential volatility in fund values
- Long-term return objectives for the default arrangement linked to inflation, to better reflect member needs
- Support a wider range of member choice at retirement
- Introduction of currency hedging to help mitigate currency fluctuation risk
- A consolidated self-select fund range, removing duplication of asset classes/regions where possible

This change to the Scheme's investment strategy has significant administration implications. The Trustees continue to work with HS Admin in order to ensure that the Scheme administration will not be affected. The expected completion date for this is early 2019.

The investment managers for the assets held in the Scheme are BlackRock, AEGON, HSBC and M&G. All of the Scheme's assets are held on the AEGON investment platform. All of these parties are completely unrelated to Goddard Perry or the Scheme itself.

The Trustees will continue to monitor Scheme investments for their suitability for members and monitor performance against their investment objectives. Any changes to member fund choices or the default investment strategy will be consistent with the Scheme's Statement of Investment Principles in effect at that time.

Whilst the majority of members currently have relatively small funds of less than £750, there is a significant minority of members who have fund values in excess of £50,000. This means that the Trustees have to be aware of the range of potential investment and retirement income solutions they will require. The Trustees receive a breakdown of the age profile of Scheme members in the stewardship reports provided by HS Admin. This is a tool used by the Trustees to review whether fund options remain appropriate to member needs.

4. Charges and transaction costs

The Trustees recognise that transaction costs and charges paid by members can have a significant impact on their pension savings and keep these under review. The Trustees are also aware of their legal obligations and Regulator guidance on the issue of charges and transaction costs and have taken this into account in drafting this section.

Member borne costs and charges

As the Scheme is being used as a Qualifying Scheme for automatic enrolment purposes, the charge controls on DC schemes apply for those employers. The Trustees have been advised that the default funds are not subject to charges in excess of the statutory maximum.

The level of charges applicable to members varies, depending on the contractual agreements in place with their employers. The level of charges applicable to the default funds during 2017 were as follows:

Level of charge	Number of Employers whose members pay the level of charge
0.29%	25
0.34%	2
0.44%	596

0.49%	15
0.50%	74
0.60%	391
0.65%	542
0.75%	479
0.49% + £1 per member	15
0.60% + £0.83p per member	1,147
Total	3,286

The table above shows the number of employers as at 25 June 2018.

Member charge	Active members	Preserved members	Total members
0.29%	585	3794	4739
0.34%	311	102	413
0.44%	4688	1223	5911
0.49%	825	158	983
0.49% + £1 per month	153	67	220
0.5%	2015	854	2869
0.6%	2620	748	3368
0.6% + £0.83p per month	5668	2580	8248
0.65%	4977	1699	6676
0.75%	12709	6171	18880
Total	34551	17396	51947

In addition, members have the option of self-selecting their own fund choice. Details of the fund choices and the level of charges applicable to these are as follows:

Fund Name	Level of Charge
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 Alma 0.95%	0.95%
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 Eqy Tracker 0.45%	0.45%
Aegon BlackRock Balanced Passive 0.75%	0.75%
Aegon BlackRock Emerging Mkts Eq 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%

Salvus has been reducing the number of different member charges which previously differed according to contractual agreements. To allow the Scheme to remain open to the very smallest employers and still deliver the same features and scheme benefits, the position is now that the majority of members pay an Annual Management Charge (AMC) of 0.75% of their member accounts, with an aspiration to reduce this charge down to 0.5% in the future.

In addition to the Qualifying Scheme, there is a Non-Contributory section which does not have to comply with the charge cap requirements. This section is 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 BlackRock Aquila 50/50 Bond and Equity Index Fund and Aegon Cash Fund.

The charges for this section can, in certain circumstances be more than 0.75% but no more than 1.00%.

The Spinnaker section funds have the following levels of charges applied depending on the fund selection

Fund Name	Level of Charge
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Aegon Blackrock Aquila 50/50 B-Equity Index	0.40%
Aegon Blackrock Aquila 50/50 B-Equity Index	0.50%
Aegon Blackrock Aquila 50/50 B-Equity Index	0.75%
Aegon Blackrock Aquila 50/50 B-Equity Index	1.00%
Aegon Cash Fund	0.40%
Aegon Cash Fund	0.50%
Aegon Cash Fund	0.75%
Aegon Cash Fund	1.00%

Transaction costs

The Trustees understand that they are required to assess and understand the different types and levels of transaction costs that are incurred by the Scheme's investment funds and assess the impact of these charges on members' funds. As such the Trustees support the aims and aspirations of the Transparency Task force to drive best practice by asset managers.

The majority of funds available to members are index tracker funds: the volume of transactions is related to the changes in the respective index. The Trustees believe that transaction costs are minimised within this strategy. In line with current investment industry practice AEGON has advised the Trustees that it does not currently report these costs to any pension scheme clients who invest money in AEGON funds, pending reaching an industry consensus about how these are to be reported. As such the Trustees are unable to state the level of transaction costs applicable to the default fund or the range of transaction costs applicable to the member self-select funds at this time.

The Trustees are corresponding with AEGON and will be working with River and Mercantile to seek greater clarity on this topic and welcome the new disclosure regulations that took effect from 6th April 2018.

Security of assets

All of the assets are invested through an insurance policy held with AEGON, which is a UK based insurance company. As such, AEGON is subject to the UK insurance company regulatory regime which is designed to ensure that they are financially sound. At this time, the Trustees do not have any concerns about security of members' funds held by AEGON.

However, as part of our good governance policy, the Trustees plan further engagement with AEGON to scenario test the security of assets in more extreme financial situations which can arise in volatile market and economic conditions.

The Financial Services Compensation Scheme provides protection to member funds.

Value for members

The Trustees have assessed the extent to which the charges borne by members represent good value in accordance with the Pensions Regulator's guidance on value for members and judge that they represent satisfactory value for members.

The Trustees' assessment reflects the Scheme circumstances and its membership, and takes into account the quality and scope of the Scheme's provisions as well as cost. In particular, this assessment takes into account investment returns achieved by the default funds, the features and facilities available to members and their employers, as well as the

impact of member deductions including those associated with administration, investment management and investment governance. Value for members was a key consideration as part of the Trustees' review of the investment arrangement during 2017.

Members receive annual benefit statements which show the Scheme contact details and are able to view their benefits online at any time. Members can also transfer their pension benefits from their previous arrangements into the Scheme. There are no restrictions or penalties for members who wish to transfer their pension benefits out of the Scheme.

Salvus offers all members access to their pension account through the Salvus Member Portal. Access is available 24/7 and once securely logged in members can:

- Check the value of their pension account at any time
- Monitor their contribution history
- Check investment performance
- Transfer other pensions schemes into Salvus
- Model what they might get back at retirement
- Ask Salvus a question (web chat or email)
- Check their details etc

In addition, members can leave feedback on their experience as a member of the Scheme by email as well as by telephone and post. Advanced member communications with web chat and text alerts are planned for the near future, acknowledging that, particularly with the use of the Scheme for automatic enrolment purposes, there are a number of younger members without many other financial investments who as a result are likely to find these forms of communication an advantage.

The Trustees continue to work closely with Goddard Perry with a view to ensuring that members receive value for money. Developments such as the Salvus website <http://www.salvustrust.com> and the Salvus employer portal www.salvuspensions.com and the self service member portal <http://www.salvustrust.com/manage-your-pension.php> are all welcome additions to support members and their employers.

5. Processing core financial transactions

The Scheme is open to employers, regardless of size of contributions. The Scheme also accepts transfers of defined contribution funds for members of pension schemes that have been taken in by the Pension Protection Fund (PPF). In addition, the Scheme is open to transfers in, without any minimum value, by an employer.. Both active members and employer contributions paid across to the scheme at each payroll run by the employer are processed by the Scheme's administrator HS Admin, on behalf of the Trustees.

The Trustees receive quarterly stewardship reports from HS Admin which report against the service level agreements which they are contractually obliged to meet. These include the time taken to process transfers in and out, retirement and death payments.

Examples of the SLA's HS Admin are expected to achieve and set out in the contract with the Trustees are as follows:

Event	SLA (days)
Retirement Settlement	14
Transfer in	15
Leaver statement	10
Amend member details	6

HS Admin also monitor the scheme bank accounts on a daily basis and there is a dedicated team monitor this on a daily basis. In addition, there is a documented process in place to check all investment and banking transactions.

Last year we reported that HS Admin advised the Trustees that there was a backlog of uninvested employer and member contributions. An initial audit by HS admin identified:

- c3,800 individual monetary receipts in the bank account where the investment was yet to be placed. These receipts related to c825 employers
- of the above, c2,600 receipts were more than one month old and related to c590 employers

The Trustees and HS Admin carried out an immediate review of every participating employer and found a number of issues relating to 3 main categories. The administrators established that:

- a group of employers, whilst making contributions on time, had failed to submit the required member data
- a number of employers have made contributions but supplied data of poor quality
- some employers were persistently late in sending data to HS Admin, or have sent information on an inconsistent basis

As a consequence of this, a fourth group employers who had paid the correct contributions and submitted the required data on a timely basis were caught in the backlog.

As we explained last year, the Trustees immediately notified the Pensions Regulator to advise them of the issue. During the year, the Trustees have had regular meetings and telephone calls with the Pensions Regulator to update them on the project plan to clear the backlog, reconcile all contributions and member data received and identify any detriment to members resulting from any delay in investing contributions. The Trustees are pleased to report that the project implemented by HS Admin was completed on time in September 2017. In December 2017 the Trustees also wrote to each individual member concerned to advise them of the action taken to correct their record and also ensured that each member for whom there was a detriment received a payment into their fund at least equal to that detriment. Therefore any member who has suffered any detriment as a result of this issue has been fully compensated so that there will be no long term effect, which the Trustees consider to be a key consideration. No member has contacted either HS Admin or the Trustees regarding this matter.

Salvus built a secure data upload section on the employer portal with detailed validation and data standards. Once securely uploaded the data is reconciled automatically and direct debit collects all contributions. All employers are required to maintain an active direct debit at all times to ensure contributions can be collected.

With the exception of the matter described above, the Trustees are satisfied that core financial transactions have been processed accurately and promptly during the Scheme year.

HS Admin and the Trustees have met the Pensions Regulator as part of their regular review of all master trusts and demonstrated the process which is in place to monitor late payments of contributions by employers. There is a fixed process in place for all employers:

HS Admin and the Trustees have met the Pensions Regulator as part of their regular review of all master trusts and demonstrated the process which is in place to monitor late payments of contributions by employers. There is a fixed process in place for all employers:

- Direct debit must be in force
- Contribution data must be securely uploaded by the 5th of each month following the end of the pay period.
- If employers fail to upload on time and automatic reminder is sent

We write to any employer who has not followed the above at:

- 30 days late
- 60 days late – and we write to affected members
- 90 days late – and we notify a material breach to The Pensions Regulator

Once late or missing contributions are notified to the regulator the affected employers have 28 days to correct this or a fine will be levied by the Regulator. Salvus puts members first and requires employers to make good all missing contributions and to make good on any investment loss that has occurred due to late receipt of contributions.

Employers who fall behind will be identified and required to make good on all contributions. Affected employers must act promptly and contact Salvus and the Regulator if they are in any doubt about their duties.

Members will be notified directly by Salvus if their employer becomes late. Members can track their contributions by securely logging in to their Salvus account. If any member is concerned about their workplace pension, the Regulator has a dedicated section of their website where they can share their concerns:


<http://www.thepensionsregulator.gov.uk/individuals/reporting-a-concern.aspx>

The Trustees view protecting member's interests as their key responsibility and the contribution monitoring process is an important tool to enable them to be able to do this.

Conclusion

This has been a year of challenges and real progress. The Trustees are satisfied that the new processes and increasing levels of automation in the administration of the Scheme, especially in the monitoring of contributions, together with the intended changes to the investment strategy, has put the Scheme in a strong position to deliver good outcomes for members.

The Trustees are currently working closely with Goddard Perry and HS Admin in order to be ready to submit all of the information required by the Pensions Regulator as part of the Master Trust authorisation process.

Signed		Date	18 July 2018
For and on behalf of Michael Clark of Clark Benefit Consulting Ltd Chair of the Trustee Board Salvus Master Trust			