

## DC Governance Statement

### **Statement of the Chair of the Trustees of the DC Section of the UPM-Kymmene (UK) Pension Scheme for the Scheme year ending 31 March 2019**

This statement is produced in accordance with section 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the Regulations).

I hereby confirm that I, Steve Carlisle, on behalf of Capital Cranfield (Corporate Trustees) am the appointed Chair of the UPM-Kymmene (UK) Pension Scheme ('the Scheme'). In accordance with section 23 of the Regulations I hereby confirm, on behalf of the Trustee Board, in relation to the Scheme that:

1. The default strategy for the Scheme has been identified and the Statement of Investment Principles in place as at the Scheme year ending 31 March 2019 is attached [Appendix B].
2. The default strategy, along with other investments offered to members was reviewed by Trustees in December 2013. At this time, the Trustees decided that the current default strategy remained appropriate and no changes were made. However, the investment options offered to members outside of the default strategy were extended to include access to a Diversified Growth Fund. The Trustees reviewed the appropriateness of the default fund again in 2015 in light of the pension flexibilities that were then being offered within the Scheme (these flexibilities being a Flexi-Access Drawdown option and an Uncrystallised Funds Pension Lump Sum option). The Trustees decided that the default fund still remained appropriate but that it would be reviewed again towards the end of 2016 once the Scheme's experience relating to the ways in which members have taken their benefits during 2016 was known. During their review at the end of 2016 the Trustees were made aware that there was a growing trend within the industry for pension scheme members to take their benefits flexibly or as a lump sum and commissioned their investment adviser to provide them with possible solutions. The default fund and alternative lifestyle options were subsequently reviewed by the Trustees in March 2017 and, whilst the default fund was again deemed to be appropriate the Trustees agreed to provide members access to two additional lifestyle funds. The performance of all the funds is reviewed regularly and the next full review of the default strategy, the other lifestyle strategies and the other self-select funds will be conducted at the start of 2020.
3. The Statement of Investment Principles and member communications were reviewed and revised in 2014 as part of the implementation of the Diversified Growth Fund. The Statement of Investment Principles also details the specific risks to scheme members which informs the ongoing assessment of the investment strategy employed by Trustees.
4. The Statement of Investment Principles was further updated in 2017 in light of the implementation of the two additional lifestyle funds. A specific member communication was issued in 2017 explaining the introduction of the two new lifestyle options. Details of the lifestyle funds and all the fund options have been included within the Scheme handbook and on the Scheme website since 2017. A reminder of the introduction of the two new lifestyle funds was included within the 2017 and 2018 annual member newsletters.
5. The core financial transactions, including investment of contributions, transfers in and out of the Scheme, and transfers/switches of assets between different investments in the Scheme, have been processed promptly and accurately as evidenced by quarterly administration reports prepared for the Trustees by Capita, the scheme administrator, which are reviewed at each quarterly Trustee meeting. A unit reconciliation is conducted monthly and reported to the Trustees quarterly, and is also reviewed at each quarterly Trustee meeting. Capita achieved an Administration SLA in excess of 95% over the year to 31

March 2019. The Trustees also commission data reports from their administrator which measure the completeness of member data to ensure any issues are identified and rectified.

6. Administration charges applicable to the Scheme are borne by the employer and therefore have no bearing on member charging. However, for completeness we have referred to these as part of our assessment of Value for Members, to be found in Appendix A.
7. The investment manager has provided an analysis of the transaction costs applicable to the Scheme. This includes costs applicable to the default strategy and other investments offered to members. This analysis can be found in the Value for Money assessment in Appendix A.
8. The Trustees attach the Value for Members assessment and statement for the Scheme. The Annual Management Charge borne by members is monitored regularly by the Trustees over the Scheme year and it is our view that this represents Value for Members.
9. Each quarter the quarterly fund factsheets in respect of all the funds members are able to invest in, as produced by L&G, are uploaded to the Scheme website.
10. Each Trustee of the Scheme is expected to ensure that he or she meets the Trustee Knowledge and Understanding requirements. All Trustees are up-to-date with the relevant sections of the Trustee Toolkit at the time of publication of this statement and newly appointed Trustees are expected to complete the Trustee Toolkit within six months of their appointment. A Trustee Training Log is maintained, reviewed and updated at each quarterly Trustee meeting. During the year to 31 March 2019 all the Trustees received significant training in respect of fiduciary management and this included a review of the main types of assets classes pension funds are likely to invest in. The appointment of Cardano, the Trustees' fiduciary manager, has subsequently led to the Statement of Investment Principles being reviewed by the Trustees. An updated draft is due to be discussed and agreed at the September 2019 Trustee meeting. Whilst no amendments to the Trust Deed and Rules have been required during the year the Trustees' legal adviser has attended Trustee meetings and provided the Trustees with training on legal matters arising during the year. The Trustees' governance documents and policies are held centrally on an online knowledge portal which all the Trustees have access to. These are reviewed regularly and, in particular, the Conflicts of Interest policy was reviewed and updated during the year.
11. Knowledge gaps are identified by each Trustee carrying out a self-evaluation during the year. In addition, the Trustees are due to complete a Trustee Knowledge and Understanding questionnaire in Q3 2019, the results of which will be analysed and discussed at the December 2019 Trustee meeting. Knowledge gaps will be identified and the appropriate training will be provided during 2020.
12. The Trustees also employ professional advisers including, but not limited to, Buck Consultants, Capita Employee Benefits, KPMG and Pinsent Masons to provide advice and ensure that scheme governance, controls, skills and knowledge are current and meeting the expectations of Regulators and scheme members.

Signed for and on behalf of the Trustees of the Scheme by Steve Carlisle in my capacity as Chair of the Trustees

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**Steve Carlisle**  
**Chair of the Trustees for the Scheme**

## DC Governance Statement

### **List of evidence represented in appendices:**

Appendix A: Value for Members Statement

Appendix B: Statement of Investment Principles, dated March 2018

### **Further supporting evidence on which our assessment was based:**

Example administration/stakeholder report, provided by Capita

Minutes of Trustee Board meeting 5 December 2013 (at which the default strategy and wider investment options were discussed and changes approved)

Minutes of Trustee Board meetings in 2016 and 2017 (during which the default fund was reviewed, and additional lifestyle funds were agreed).

Minutes of Trustee Board meetings in the year to 31 March 2019.

Trustee Risk Register, updated June 2019

Trustee Training Log, updated June 2019

Trustee Business Plan, updated June 2019

DC member handbook, updated during the year to 31 March 2019.

## DC Governance Statement

### Appendix A: Value for Members Assessment

To make an assessment of the Scheme in terms of whether and how it represents Value for Members, the Trustees have considered the following evidence:

- Statement of Investment Principles
- Quarterly Performance Monitoring Report, provided by Buck Consultants
- Member communications
- L&G fund reporting

Also, the Trustees have taken into account the following considerations and decisions:

1. The costs of the Scheme are predominantly borne by the employer, leaving only investment costs which are borne by scheme members (AMC and ongoing transaction costs).
2. All investment options, including the default, fall within the Government's prescribed Charge Control cap of 0.75%.
3. The Statement of Investment Principles describes the Trustees objective to "ensure that the investment managers have the financial interests of scheme members as their first priority when choosing investments".
4. Scheme Trustees receive quarterly performance reports from their investment advisers and managers, which are discussed at each meeting of the Trustees.
5. The Trustees carry out periodic reviews of scheme governance against The Pensions Regulators' published regulatory expectations, to ensure that the running and management of the scheme is working in the interests of all beneficiaries, but particularly in the interests of members. The next full review will be conducted in Q1 2020.

### Analysing transaction costs

The Trustees acknowledge the requirement to source information and data on transaction costs applied to investments underlying the Annual Management Charge. Whilst there are difficulties in carrying out this task due to lack of requirements around the transparency of investment charges for investment managers the Trustees have been able to work with L&G to carry out an analysis of transaction costs applicable to the Scheme.

The costs of transitioning between funds within the default lifestyle arrangement are shown in the table below:

| Fund                    | Cost of buying | Cost of selling |
|-------------------------|----------------|-----------------|
| L&G Global Equity Fund  | 0.47%          | 0.12%           |
| L&G Pre-retirement fund | 0.34%          | 0.34%           |
| L&G Cash Fund           | 0.00%          | 0.00%           |

The above costs are based upon a 'worst case' scenario in which all fund prices swing to the detriment of members. Actual costs experienced by members may differ. It is not possible to arrive at a single number for

transaction costs incurred by a member within the default as it depends on the size of each contribution/transition in/out, the level of investment return achieved, the point at which the member enters the lifestyle, the blend of funds at any point in the lifestyle etc.

The charges and transaction costs for funds within the default lifestyle strategy for the year ending 31 March 2019 are shown in the table below:

| Fund                    | Total ongoing charges (OCF)* | Transaction costs** |
|-------------------------|------------------------------|---------------------|
| L&G Global Equity Fund  | 0.185%                       | -0.01%              |
| L&G Pre-retirement fund | 0.150%                       | 0.022%              |
| L&G Cash Fund           | 0.125%                       | 0.004%              |

\* Includes the AMC, plus various other expenses including index licensing fees, legal fees, administration, marketing, regulation, auditing. Due to the size and purchasing power of the LGIM index funds, the AMC and OCFs are effectively the same.

\*\* Transaction costs that applied (or may have potentially applied) to the investment funds available to members, based on charges outlined within Appendix A.

LGIM have commented that implicit transaction costs have been calculated as the difference between the price at which a deal was struck and the price of the instrument at previous market close. This is consistent with the implicit cost calculation methods allowable prior to 2018 under PRIIPS guidance, which allows firms to assume there is no intra-day data available.

For any transactions occurring in the accounting year, the arrival price of each trade will be captured and used to calculate the implicit transaction cost ('slippage cost'). The arrival price of a trade is the mid-market price of an asset at the time the order is placed in the market.

Indirect transaction costs have been calculated assuming a static fund structure as at 31/03/2019.

For any funds which hold an investment managed by a third party, the transaction costs provided by the third party manager are represented as an indirect external fund transaction cost. Where transaction cost information was not made available by the third party, transaction costs incurred by the externally managed fund have not been included.

All charges and transaction costs have been provided by Legal & General Investment Management Limited.

#### **Costs borne by the employer:**

The following ongoing costs are borne by the sponsoring employer:

1. Administration costs
2. Cost of running the Trust Board
3. Cost of advice (Employee Benefit Consultancy, legal costs, cost of other advice)

The Trustees believe that the investment options available provide good value for money to members.