

Fernau Avionics Pension Plan

Chair's statement regarding the governance of defined contribution arrangements

Scheme year – 29 March 2018 to 28 March 2019

1. Introduction

- 1.1. This statement has been prepared by Moog Fernau Limited ("the Trustee"), the Trustee of the Fernau Avionics Pension Plan ("the Scheme") to report on compliance with defined contribution (DC) governance standards, as required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

2. The Scheme's DC arrangements

- 2.1. The Scheme is an insured DC arrangement, with bundled services provided by Phoenix Life.
- 2.2. The Scheme was closed to further contributions from 1 September 1997.
- 2.3. The Scheme has five members who are yet to reach their Scheme retirement age.
- 2.4. The Scheme provides Guaranteed Annuity Rates, through which members may exchange pension savings for annual income at retirement age.
- 2.5. The Scheme has never been used for automatically enrolling new members.
- 2.6. Subsequent to the scheme year, the Trustee has undertaken a review of the process by which the Scheme can be wound up.

3. Default investment arrangement

- 3.1. The Scheme has no default investment arrangement.
- 3.2. All assets are held in Phoenix Abbey Life investment funds.
- 3.3. The Trustee is not required to prepare a Statement of Investment Principles, either scheme-wide or default-specific.

4. Core financial transactions

- 4.1. The Trustee has a specific duty to ensure that 'core financial transactions' are processed promptly and accurately.
- 4.2. Core financial transactions comprise the following, in relation to each of the Scheme's DC arrangements:
 - 4.2.1. transfers out of the Scheme
 - 4.2.2. investment switches within the Scheme
 - 4.2.3. payments out of the Scheme

Controls and monitoring arrangements

- 4.3. Phoenix Life does not provide administration service reporting to enable the Trustee to monitor the promptness and accuracy of core financial transactions.
- 4.4. The Trustee does however believe that Phoenix Life will have internal controls and monitoring processes in place that cover the Scheme's core financial transactions.

Performance during the scheme year

- 4.5. No issues were raised by Phoenix Life during the scheme year.

Assessment

- 4.6. The Trustee believes it likely that core financial transactions have been processed promptly and accurately.
- 4.7. It is unlikely that service reporting will be forthcoming from Phoenix Life in the future to undertake satisfactory monitoring, due to the legacy nature of the Scheme. This is a contributory factor to the Trustee choosing to wind-up the Scheme.

5. Charges and transaction costs

- 5.1. Members bear charges deducted from the funds in which their DC pension savings are invested. The charges differ between the investment options available and consist of both explicit and implicit charges:
 - 5.1.1. Explicit charges: these are collected by explicit deduction of investment units and are expressed as a percentage of the value of each member's holdings within an investment fund. We refer to these explicit charges as the Total Expense Ratio (TER).
 - 5.1.2. Implicit charges: these relate to the charges and costs incurred within an investment fund arising from the trading activities of the fund, e.g. incurred in the buying and selling of securities, which are not accounted for in the explicit charges. These implicit charges vary according to each fund's investment approach and prevailing market conditions. We refer to these implicit charges as the transaction costs.
- 5.2. The following table provides details of the explicit and implicit charges applied to each of the investment options provided through the DC Section over the scheme year (data sourced from each relevant investment manager):

Investment option	TER (p.a.)*	Transaction costs (p.a.)
Phoenix AL Managed	1%	0.15%
Phoenix AL Property	1%	0.02%

- * This charge is made up of a number of elements, e.g. the standard annual management charge for the investment funds of 0.75% and additional charges on 'capital units'. Phoenix Life report that charges were reduced from December 2017 with the aim to bring down the average charge applied to the equivalent of 1% pa.

- 5.3. The Trustee has not provided illustrative examples of the compounding effect of costs and charges due to its decision to progress with winding-up the Scheme.

Value for members

- 5.4. Regulations require the Trustee to assess the extent to which the charges and transaction costs borne by members represent good value. The Trustee recognises that the members receive limited value, so undertook a review of how the Scheme could be wound-up and now plan to progress with this. In this context, the Trustee felt that a formal value for members assessment was to be of limited benefit.

6. Trustee knowledge and understanding

The Trustee Board

- 6.1. The Trustee is the principal employer.
- 6.2. One of the Directors, Paul Revell, is the chair of the Trustee.

Trustee knowledge and understanding requirements

- 6.3. The Trustee is required to be conversant with the Scheme's main documents, and have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational schemes and investment of scheme assets to enable it to properly exercise its functions.
- 6.4. The Scheme has been closed to contributions for many years. The principal employer is the Trustee, and the Directors have limited knowledge and understanding about the Scheme or its running, albeit some of the Directors have a level of pensions knowledge and understanding in connection with other arrangements.
- 6.5. In recognition of the above, the Trustee has decided to wind-up the Scheme. In the course of this consideration, the Directors are becoming conversant with the Scheme's rules, its terms and occupational pension scheme legislation.

Trustee training

- 6.6. During the scheme year, no formal training was undertaken by the Directors in relation to the Scheme, and there is no structured training programme in place. However, the Trustee has since sought professional advice as described below.

Access to professional advice

- 6.7. During the scheme year, the Trustee did not take professional advice.
- 6.8. The Trustee has since engaged Barnett Waddingham to support it with its governance requirements, consideration of wind-up and to support it with the wind-up processes.
- 6.9. Where the Trustee feels it is required, legal advice will also be sought in relation to the Scheme's wind up.

Assessment

- 6.10. The Directors do not consider that their combined knowledge, skills and understanding over the scheme year were of a sufficient level. However, they believe that their improved knowledge and understanding since the scheme year end, together with access to professional advice, will enable them to properly exercise their trustee functions in relation to the Scheme's wind-up.


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Paul Revell, Chair of the Trustee


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Date