

Annual statement regarding governance of the Direct Line Group Services Pension Scheme (1993) (the "Scheme")

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustee of the Scheme to prepare an annual statement regarding governance, which should be published on an appropriate public website. The governance requirements apply to most defined contribution ("DC") pension arrangements with two or more members and aim to help members achieve a good outcome from their pension savings.

This statement issued by the Trustee covers the period from 1 April 2019 to 31 March 2020 and is signed on behalf of the Trustee by the Chair.

This statement covers governance and charge disclosures in relation to the following:

1. The Default arrangement
2. Processing of core financial transactions
3. Member borne charges and transaction costs
 - i. Default arrangement
 - ii. Illustrations of the cumulative effect of these costs and charges
4. Value for Members assessment
5. Trustee knowledge and understanding

1. The Default Arrangement

The Scheme is not used as a Qualifying Scheme for auto-enrolment purposes. The Scheme has never been used for this purpose and no contributions have been received since 1998. As such there is no default arrangement for the purposes of automatic enrolment legislation, and so no default Statement of Investment Principles has been produced.

The Scheme offers a range of unit-linked funds managed by Aviva and other fund managers. As there is no default arrangement there has never been a review of the default so there is no date for the last review. The Trustee's adviser, Aon UK Limited, reviewed the investment options as part of its winding up advice to the Trustee, dated 3 February 2020, in the context of compatibility with the wind-up process.

2. Processing of Core Financial Transactions

All core financial transactions are undertaken on behalf of the Trustee by the Scheme administrator and insurer, Aviva. In addition, as the Scheme has been paid up since 1998 there are no ongoing contributions or transfers in. Therefore, the only financial transactions are payments out at retirement or on death or where a member requests a transfer to another pension arrangement. These transactions are undertaken and managed on behalf of the Trustee by Aviva and the Trustee is required to authorise any payment of benefits before Aviva will make the payment. Over the period of this statement there were no core financial transactions completed.

Aviva have been asked by the Trustee to provide information around their core financial transactions processes and to provide information around a Service Level Agreement to enable the Trustees to monitor this, however, Aviva have not provided this information at the time of writing. The Trustee will continue to take steps to try and obtain this information, in order to satisfy itself that there are processes in place to ensure that all core financial transactions are processed in an accurate and timely manner.

3. Member Borne Charges and Transaction costs

The Trustee is required to assess the costs associated with the Scheme, which are paid by the members. These costs are comprised of charges and transaction costs.

Charges, such as the Annual Management Charge ("AMC" – the annual fee charged by the investment manager for investing in a fund), as well as additional expenses together comprise the Total Expense Ratio (TER), which is the total cost of investing in the fund.

Both members are invested in traditional unit-linked funds. Aviva has confirmed the member charge for all the funds available in the Scheme is 1.0% per year. There is an additional administration charge of £4.86 per month deducted by Aviva from members' funds.

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities/ assets within the fund. Transaction costs are incurred on an ongoing basis and will impact on the net return received on the underlying assets. The Trustee has sought to obtain information on these transactions costs and this information has not been forthcoming at the time of writing. The Trustee will continue to request this information from Aviva, the current Investment Manager and will report further on this when information becomes available.

(i) Funds available in Scheme

The TERs for all the funds available through the Scheme are set out below.

Fund	TER (per year)	Transaction costs (per year)
Aviva Pension Architas MA Active Growth AP	1.0%	TBC
Aviva Pension Asia Pacific ex Japan Equities AP	1.0%	TBC
Aviva Pension AXA Framlington American Growth AP	1.0%	TBC
Aviva Pension AXA Framlington Health AP	1.0%	TBC
Aviva Pension AXA Framlington Managed Balanced AP	1.0%	TBC
Aviva Pension Baillie Gifford Managed AP	1.0%	TBC
Aviva Pension BNY Mellon International Bond AP	1.0%	TBC
Aviva Pension BNY Mellon Multi-Asset Growth AP	1.0%	TBC
Aviva Pension BNY Mellon UK Income AP	1.0%	TBC
Aviva Pension Cash AP	1.0%	TBC
Aviva Pension Ethical Distribution AP	1.0%	TBC
Aviva Pension Europe ex UK Equities AP	1.0%	TBC
Aviva Pension Far East AP / XE	1.0%	TBC
Aviva Pension Global Distribution AP	1.0%	TBC
Aviva Pension Global Equities AP	1.0%	TBC
Aviva Pension Higher Income AP	1.0%	TBC
Aviva Pension Index-Linked AP	1.0%	TBC
Aviva Pension Japan Equities AP	1.0%	TBC
Aviva Pension JPM UK Equity Growth AP	1.0%	TBC
Aviva Pension Lifestyle Retirement 2030 AP	1.0%	TBC
Aviva Pension Lifestyle Retirement 2035 AP	1.0%	TBC
Aviva Pension Lifestyle Retirement 2040 AP	1.0%	TBC
Aviva Pension Managed AP	1.0%	TBC
Aviva Pension My Future Annuity AP	1.0%	TBC
Aviva Pension My Future Consolidation AP	1.0%	TBC
Aviva Pension My Future Growth AP	1.0%	TBC
Aviva Pension North America Equities AP	1.0%	TBC
Aviva Pension Overseas AP	1.0%	TBC
Aviva Pension Property AP	1.0%	TBC
Aviva Pension Reserve AP	1.0%	TBC
Aviva Pension Retirement Distribution AP	1.0%	TBC
Aviva Pension UK Equity AP	1.0%	TBC
Aviva Pension UK Tracker AP	1.0%	TBC

(iv) Illustrations of the cumulative effect of costs and charges

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustee has provided an illustration of their cumulative effect on the value of typical scheme members savings over the period to their retirement.

The illustration has been prepared having regard to statutory guidance, selecting a suitable representative member, and are based on several assumptions about the future which are set out after the illustrations.

Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members on annual basis by Aviva.

All projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future expected inflation.

Example member with 4 years to retirement age and current fund value of £1100,000 (shown in current money terms)

Age	Estimated fund value (before charges)	Estimated fund value (after charges)	Effect of charges
4 years to retirement age	£110,000	£110,000	Nil
Retirement age	£130,627	£125,812	£4,815

Assumptions and data for illustrations

The following assumptions have been made for the purposes of the illustrations:

- Annual inflation is assumed to be 2.5% per annum
- The starting fund value used in the projections is representative of the membership
- The fund with the greatest proportion of the Scheme's assets is the UK Equity fund and the assumed projected gross annual investment return used in the above projection for that fund is 7.0%
- Values shown are estimates and are not guaranteed.
- Transaction costs have not been provided and so do not feature in the illustrations.

Members are advised to consider both the level of costs and charges and the expected return on investments (i.e. the risk profile of the strategy) in making investment decisions.

4. Value for Members assessment

The Trustee has established an assessment framework in order to assess whether the charges and transaction costs paid by members represent Value for Members. Whilst the legislation refers to the benefits that the members specifically pay towards (and not the benefits that the Company meets the cost of), it is also sensible to look at the entire benefits that members receive by virtue of being a member of the Scheme. In terms of the benefits of membership, the Trustees have identified the following areas where they believe there is a benefit derived by members:

- Member communications and engagement (including support at retirement)
- Investment options
- Sound administration
- The time spent by the Trustee in making sure that the Scheme is run in the best interests of its members (known as governance)

These benefits can be financial or non-financial in nature. The assessment is therefore relevant to the current membership.

Having carried out the analysis, due to concerns about the Scheme's ability to offer 'value for money', a decision has been taken by the Trustee and Company to wind-up the Scheme. The wind-up process formally commenced on 4 March 2020 and letters were sent to both members on

10 March 2020. At the time of writing the wind-up process is nearly complete with members' benefits due to be assigned. The wind-up process is expected to be concluded in September or October 2020, after which there will be no assets nor liabilities in the Scheme.

5. Trustees' Knowledge and Understanding

The Regulations require the Trustee to have appropriate knowledge and understanding to run the Scheme effectively. The Trustee does not have formal processes in place to undertake training or keep knowledge up-to-date with relevant developments.

Having reviewed the Scheme against the minimum requirements, the Trustee and Company agreed that the required level of governance required to maintain the Scheme was disproportionate to the size of the Scheme (with its two members) and as such agreed to wind up the Scheme and this wind-up process is near completion.

Signed by the Chairman of the Trustees of the Direct Line Group Services Pension Scheme (1993)



Chairman of the Trustee – Roger Clifton

Date of signing 17 September 2020