THE RCA PENSION SCHEME

STATEMENT REGARDING DC GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2018

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the “Regulations”) require the Trustees to include an annual statement regarding the governance of the money purchase, or otherwise known as the defined contribution (“DC”), section of the Scheme (the "DC Section") in their annual report.

1. The DC Section

The Scheme contains a benefit section which is DC in nature.

This means that each member of the DC Section has a notional account (or "pension pot") in the Scheme to which all contributions paid to the DC Section by the member and the member's employer are allocated. These contributions are then invested by the Trustees on the member's behalf (see Section 2 below) and the member is entitled to the benefits which can be provided by the funds built up in the member's notional pension pot over time.

However, DC Section members also have an extra pension promise: their pension payable at retirement or earlier death must not be less than a pre-determined benefit. This is known as the "minimum pension promise".

If the DC Section member’s notional pension pot at retirement or earlier death is too small to pay a benefit equal to the minimum pension promise, the Scheme will pay a pension equal to the minimum pension promise using the member’s notional pension pot as topped up by the Scheme’s general resources (with the shortfall effectively paid by the employers through their ongoing contributions to the Scheme).

Whether the minimum pension promise is met for each DC Section member is only known when the member retires or dies. Therefore, DC Section members' notional pension pots are invested before retirement or earlier death in a manner which recognises the need for a reasonable rate of return for the affected members, but recognition also needs to be given to the obligations on the Scheme and the employers to meet the minimum pension promise.

The DC Section has some 25 members, almost half of whom are within 10 years of retirement, and the overall asset value of DC Section members' pension pots is just over £1 million which represents a relatively small part of the Scheme overall.

The DC section of the Scheme is closed to new members and the accrual of benefits. This means that no contributions are paid by members or their employer to the DC Section and the minimum pensions promised has also ceased to accrue. The Scheme is not used by the employers to comply with their statutory automatic enrolment duties.

2. Default investment arrangement

The DC Section does not offer members investment choices. Instead, all contributions which have been paid to the DC Section by the DC Section members and their employers are invested by the Trustees in a with profits fund (the "With Profits Fund") with the Prudential Assurance Company Limited (the "Prudential").

The With Profits Fund is, therefore, the 'default' investment arrangement for the DC Section.

The With Profits Fund

The objective of a with profits fund is to secure a relatively high total return for its investors over the long term (after any tax and investment expenses) while maintaining an acceptable level of risk and protection. The With Profits Fund invests in a range of asset types, including company shares, commercial property, bonds and cash and any profits generated by these assets are paid to policyholders in the form of bonuses. These profits are 'smoothed' over time, which means that Prudential holds back some of the investment returns in good years with the aim of using this to support bonus rates in the years where the investment returns are lower.

The With Profits Fund has had an allocation to company shares (referred to as 'equities') that has been greater than many similar funds, and this has contributed to the strong results in the recent past

The table below shows the annualised returns of the Prudential With Profit Fund in comparison with similar with profits funds from other insurance companies.

Annualised performance as at 31 December 2017	1 year (pa)	3 year (pa)	5 year (pa)
Standard Life Heritage With Profit Fund	3.40%	4.60%	5.20%
Friends Provident With Profits Sub Fund	6.60%	6.80%	7.00%
Aviva Life and Pensions UK Limited With Profits Sub Fund	8.10%	8.20%	8.70%
Prudential With Profits Fund	10.30%	9.40%	9.30%

Please note the above returns are before any fees except for the Friends Provident With Profit Sub Fund.

Prudential retains the right to make a Market Value Reduction (a "MVR") when money is withdrawn from the With Profits Fund. A MVR is a reduction applied to the value of a DC Section member's notional pension pot if that money is used before the member's normal retirement date or earlier death either to provide benefits or pay a transfer value to another pension arrangement. This is the Prudential's way of ensuring that every investor gets a fair return based on the earnings of the With Profits Fund over the period their notional pensions pot has been invested. It is used to balance the interests of continuing investors with those who wish to cash-in their investments. A similar method is also used by other providers of with profit funds.

The Trustees do consider from time to time the level of the MVR and if the MVR is low (or not being applied by the Prudential) whether it would be appropriate to move the investments to a different type of investment proposition.

The Trustees' review of the default strategy and performance

The latest Statement of Investment Principles for the DC Section is attached as Appendix 1 to this statement.

In May 2018 the Trustees' undertook a review of the With Profits Fund. Their investment advisers informed them that, because the Prudential was not applying an MVR, there was an opportunity for the Trustees to cash-in their investments in the With Profit Fund. The Trustees were advised that they might want to do this if they wanted to de-risk the DC section investments and invest in funds with lower levels of investments in equities than the With Profits Fund, but there was no pressing reason to do so or to change the default strategy.

The Trustees, after considering the investment adviser's advice, decided to retain the With Profits Fund due to the returns achieved and the fact that they are smoothed out over good and bad years meaning that the level of risk in the With Profits Fund remained acceptable, especially as the minimum pension promise ensures a minimum level of income for members.

However, the Trustees still decided to do a more detailed review of the long term use of the With Profits Fund in 2018 given that the last detailed review of the default strategy and performance was carried out in 2015 and a detailed review was not carried out during the last scheme year.

The Trustees' detailed review of the default strategy and performance commissioned by the Trustees was conducted in December 2018. It contained detailed advice from the Scheme's DC Section investment advisers on not only the With Profits Fund but also possible alternative investment options.

The Trustees decided having considered this review that, given the age profile of the DC Section members, the With Profits Fund remains a suitable investment for the DC Section because it provides a more stable level of return which benefits the members and does not introduce undue risk in relation to the employers' commitment to the minimum pension promise. The Trustees considered that advantages of other investment options were not sufficiently compelling to justify moving the funds from the With Profits Fund.

Offering members a choice of investment funds was considered, but the Trustees decided to retain the With Profits Fund as the sole investment option. Many DC Section members are too close to retirement to be able to make effective use of investment fund choice and the risks of re-organising part of the assets for the remaining members were not thought to be justified when compared to the potential advantages.

3. Processing of financial transactions related to the DC Section

The Trustees are required by law to ensure that core financial transactions relating to the DC section (including the transfer of member assets into and out of the DC Section, transfers between different investments and payments to and in respect of members) are processed promptly and accurately.

All core financial transactions relating to the DC Section are undertaken by the Scheme administrator, First Actuarial LLP ("First Actuarial"), and the investment manager, Prudential.

Monitoring of First Actuarial and Prudential

The Trustees have agreed service levels with First Actuarial which require them to reconcile each member's notional pension pot with the investment returns achieved by the Prudential and ensure the timely implementation of transactions by the administrators which are both within statutory requirements but also adhere to good administration practice. The service levels apply to all core financial transactions and focus on good member outcomes and maintaining member confidence.

The Trustees receive regular stewardship reports from First Actuarial at least four times a year which indicate the transactions which have occurred which affect the membership and report on First Actuarial's performance against the agreed service levels. These reports are reviewed by the Trustees at each meeting and the Scheme actuary, who is from First Actuarial, is available to answer any queries or concerns. If an issue is identified, a plan of action is agreed to rectify the problem. First Actuarial will be required to report progress to the Trustees.

In-between meetings, a regular check is made on key financial transactions relating to the DC Section by the finance team at the employer (which is under the supervision of one of the Trustees who is a senior member of that team).

The Trustees have reviewed at a high level the processes and controls implemented by the Prudential as the investment manager. As no new contributions are being invested, the reconciliation of the notional member pots held with the Prudential is simplified and is reconciled by First Actuarial. On a DC member's retirement, First Actuarial examine historical contributions made to the DC Section and the investment return on the notional pensions pot achieved by the With Profits Fund in order to determine the value of the notional pensions pot available to provide benefits. A check is also made to establish if the notional pensions pot is sufficient to meet the minimum pensions promise. The Prudential does not calculate individual member pension entitlements and as a result, the Trustees are satisfied that they do not need to carry out more detailed reviews of the processing of investments by Prudential.

Outcome of monitoring

There have been no administration issues during the year, no member complaints and no other indications that the Trustees should be concerned about the quality of the services provided to the Scheme and the membership.

The stewardship reports indicate a low level of member transactions which is to be expected given that the DC Section has no active accrual of benefits and therefore receives no contributions to be allocated and invested in the notional pension pots. There are also relatively few changes to the membership as there are few retirements, deaths or transfers due to the size and membership numbers in the DC Section. The stewardship reports demonstrate that those transactions which do occur are undertaken in accordance with the agreed terms with very high levels of service compliance.

In the light of the above, the Trustees are satisfied that core financial transactions in relation to the DC Section have been processed accurately and promptly in the last scheme year.

4. Transaction costs

The law requires the Trustees to make an assessment of charges and transaction costs borne by DC Section members and the extent to which they represent good value for members.

Due to the nature of with profits funds, where the application of profits is smoothed over a number of years, it is not possible to obtain details of the costs of making transactions. The Trustees have reviewed the Principles & Practice of Financial Management (P&PFM) published by Prudential in October 2018. This document explains how the Prudential manage the With Profits Fund and the protections in place for investors and can be found at the following this link https://www.pru.co.uk/pdf/WPGB0014.pdf .We have not included a copy of the statement in the Chair's statement as it is a fairly lengthy document, but if you are unable to use the link and would like the Trustees to provide you with a copy please contact the Scheme in the usual way.

In Section 4 of the P&PFM (Charges and Expenses), it states that "The overall aim of the expense charging and allocation methodology is to seek to ensure that all expense allocations are fair between policyholders and shareholders, between different sub-groups and between different groups of policyholders". It goes on to state that "The Chief Actuary and the With-Profits Actuary, with regard to advice from the WPC (With Profits Committee), review each year the fairness to each category of with profits policy of the expense allocation and associated practices…"

The With Profits Fund investment as a whole attracts a total management charge for the year of 0.65% of assets under management for all members. It is not a charge applied by a deduction against each notional pension pot. This is lower than the statutory charge cap that applies to qualifying schemes used for automatic enrolment purposes (which the Scheme does not have to comply with because it is not used by the employers to comply with their automatic enrolment duties). The Trustees have reached the view, on the basis of investment advice received from their DC Section investment adviser, that the rate of charges is reasonable in comparison to similar products available in the market. Should the charges change the Trustees will reconsider this.

The cumulative impact of the charges is illustrated in the following table:

Projected Pension Pot in todays money		
	Prudential With Profits Fund	
Years	Before charges	After all costs and charges
1	£42,298	£41,974
3	£45,018	£43,992
5	£47,913	£46,107
10	£55,992	£51,849
15	£65,434	£58,307
20	£76,467	£65,570
25	£89,361	£73,737
30	£104,428	£82,921
35	£122,037	£93,249
40	£142,614	£104,864

These figures are based on the following assumptions:

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation
2. Charges will continue to be at the rate of 0.65% of the assets
3. The starting pot size is assumed to be £41,000
4. Inflation is assumed to be 2.5% each year
5. No further contributions will be paid
6. Values shown are estimates and are not guaranteed
7. The projected growth rate for the Prudential With Profits Fund is as follows: 3.17% above inflation

The costs of running the DC Section of Scheme which are in addition to the 0.65% management charge applied to the With Profits Fund by the Prudential as noted above, are met by the employers. This includes the costs associated with the provision of legal and investment advice and the provision of governance and administration services.

The MVR (see Section 2 above) could be viewed as a potential cost that could be incurred by the DC Section members when investment returns consistently underperform expectations, but this only applies if the member seeks to access his notional pension pot before his normal retirement date which means that it is a cost which is only incurred should the member choose to retire early or take a transfer payment.

Despite that fact that, due to the nature of the With Profits Fund, it is not possible to carry out a detailed assessment of all of the charges associated with being invested in the With Profits Fund, the Trustees have concluded that DC Section is offering good value for members. The Trustees have reached this conclusion having considered advice confirming that the current management charge applied by the Prudential is reasonable, the level and application of investment returns, the provision of the minimum pension promise (see Section 1 above) and the fact that the employers meet all of the costs of the administering the DC Section (other than the investment costs themselves).

5. Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07. The comments in this section relate to the Trustees as a body in dealing with the whole scheme and are not restricted to the DC Section.

The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping up-to-date with relevant developments and are responsible for identifying any training needs. The Trustees are expected to identify their own knowledge gaps and organise such training as they require either through the Scheme Secretary or separately. The Scheme Secretary maintains a record of training activities undertaken during formal meetings of the Trustees.

The presence of the Chair, who is an experienced professional independent trustee, helps to ensure that relevant issues and developments are brought to the attention of the Trustees and given due weight on the agenda. When advice is given to the Trustees, the opportunity is taken to refresh the Trustees on the key principles underpinning that advice as well as the key resources from which more information can be obtained. Meetings are also organised to allow adequate time for discussion, debate and questions to ensure decisions are made on an informed basis.

The Trustees are assisted by the Scheme Secretary who is an external professional provider of such pensions services. The Scheme Secretary reviews recent developments and arranges for training on suitable topics to be undertaken as part of one of the Trustees' meetings each year. Between meetings, the Trustees receive technical advice and updates from their professional advisors which cover a wide range of issues including changes in the law, regulatory guidance and themes and trends in the pensions industry and a regular investment commentary. The relevant skills and experience of those advisors, and how they share that information, are key criteria when evaluating advisor performance or selecting new advisors.

All of the existing Trustees have undertaken training using the Pension Regulator's Trustee Toolkit.

The Chair of the Trustees is an experienced and practicing pensions lawyer with expertise in pension scheme governance, regulatory requirements, benefit provision and investment related matters as they apply to pension schemes. She is well acquainted with the terms of the Scheme rules and wider documentation for the Scheme as well as pensions and trust law as it applies to it. Her interest in pension scheme investments means that she has a good level of familiarity and understanding of the key financial, investment and legal issues associated with pension scheme investments in the context of the Scheme investment strategy as set out in the statement of investment principles.

The non-professional employer trustees on the board are a senior executive of the employer and a senior member of the employer finance team, both of whom have in-depth knowledge and understanding of business, investment and finance related matters. The member trustees both have an excellent understanding of the membership, the benefits provided and member communication and management issues.

The Scheme Secretary and the Scheme Actuary come to all meetings so that the Trustees have support in operational, administrative, pensions consultancy and actuarial matters. Other advisers are invited to meetings as and when required.

The Trustees consider that their collective skills and experience, together with the professional support they receive, means that they are well placed to ensure that they are well informed in making their decisions and are able to progress pension scheme business in a sensible and legally effective manner. The strength of the board overall and the advisory team means that the Trustees are able to manage conflicts of interest effectively without compromising the quality of the Trustees' decision making.

There have been no new trustees appointed to the board in the last 12 months, but the Scheme requires that all new Trustees complete the Toolkit within six months of taking up office, and existing Trustees are required to keep up to date with the Toolkit. As the Trustee board has had no new members recently, the Trustees do not have in place a comprehensive induction program. The Trustees recognise that the board can change at any time and as such intend to develop an induction and succession planning policy over the next 12 months and this will form a part of the overall policy on the appointment of trustees including member nominated trustees.

As the current Trustees have been in place for some years they have each developed a good working knowledge of the Scheme's governing documents and in particular the key powers vested in the Trustees and the nature of the Scheme's benefits. The Chair of the Trustees is legally qualified and as a part of her role ensures, where necessary with the support of the Scheme's legal advisers, that all advice given and decision taken, are in the context of the powers, discretions and duties the Trustees have under pensions and trust law.

The Trustees have a rolling program of developing and reviewing polices for the Scheme which relate to statutory and regulatory compliance, good governance and the management of practical issues for the Scheme. During the year the Trustees developed, reviewed and approved the following governance documents:

- Anti-bribery and anti-corruption policy
- Governance of investment statement
- Appointment of Chair procedures
- Supplier-review procedures
- Data protection law compliance

A review of the Scheme benefits is also underway. The Trustees have commissioned their legal adviser to check the administrator's specification of the Scheme benefits against the legal entitlements of the membership as stated in all of the Trust Deeds and Rules as well as relevant legislation and regulations. No material issues have been found to date, but this exercise has helped ensure that all of the Trustees are conversant with the operation of the Scheme and the benefits payable in greater detail and will form a firm basis for future data cleansing exercises.

The Trustees have also benefited from training from the Actuary on mortality and the valuation process and, from the then Scheme Secretary on data protection requirements. While the former is mainly relevant to the defined benefit section of the Scheme, the latter has application to both sections.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

6. DC Scheme governance

The Trustees have reviewed their systems, processes and controls across key governance functions related to the DC Section to ensure consistency with the requirements set out in legislation and with regulatory guidance for defined contribution schemes (including the Pension Regulator's Code of Practice 13 Governance and administration of occupational defined contribution trust-based schemes).

In particular, the Trustees have assessed themselves against the Pension Regulator's DC quality features and have a policy document which sets out the review undertaken and the outcomes from that review. This policy is due to be reviewed again in the next 12 months.

Based on our assessment we believe that we have adopted the standards of practice set out in legislation and regulatory guidance. These help to demonstrate the presence of DC quality features, which we believe will help deliver good outcomes for DC Section members at retirement given the benefits provided by the DC Section of the Scheme (which includes the minimum pensions promise).

This statement regarding governance of the DC Section of the Scheme was approved by the Trustees on 28th January 2019 and signed on their behalf by the Chair of the Trustees:

J. Kola - Director, Pension Legacy Trustees Limited

APPENDIX 1

RCA Pension Scheme

Statement of Investment Principles (Money Purchase Section)

January 2019

Introduction

1.1 Purpose of the Statement

This statement sets out the principles and policies that govern investments made by the Trustees of the RCA Pension Scheme in connection with the Money Purchase Section of the Scheme. It replaces references to the Money Purchase Section in the Statement of Investment Principles dated November 2015.

1.2 Statutory Requirements

This statement is made in accordance with the requirements of the Pensions Act 1995 and the Occupational Pensions (Investment) Regulations 2005 made under the Pensions Act 2004.

1.3 Investment Advice

As required by legislation, in the preparation and maintenance of this statement and when considering the suitability of any investments, the Trustees have obtained and considered written advice from their investment adviser.

The Trustees are advised on investment matters in relation to the Money Purchase Section of the Scheme by First Actuarial LLP. First Actuarial LLP is regulated by the Institute and Faculty of Actuaries and is qualified to provide the required advice through knowledge and practical experience of financial matters relating to pension schemes.

1.4 Employer Consultation

Under legislation, the ultimate responsibility for determining the investment strategy rests with the Trustees. However, the Trustees must consult with the sponsoring employer and consultation must comprise a sharing of views, not simply notification of intent.

The Trustees have consulted with the sponsoring employer as part of the work preparing this statement.

1.5 Reviewing this Statement

This statement will be reviewed at least every three years and without delay after any significant change in circumstances or investment policy.

A copy of this statement and any amendments made to it are available to the Scheme Actuary and to the managers of the pooled investment vehicles used by the Trustees.

2. Investment Objectives

At retirement, the value of a member's Retirement Fund is compared with the cost of securing their contracted out rights (GMP for pre 97 accrual and protected rights for post 97 accrual) for that member. If the Retirement Fund does not exceed the cost of securing the contracted out rights underpin, the underpin must still be provided to the member.

The Trustees' primary investment objective for the Money Purchase Section is to minimise the risk of a member's Retirement Fund falling short of the cost of securing the underpin at retirement whilst still providing a reasonable rate of return on the investments and to seek to reduce the risk of volatility in the rate of investment return over time.

The Trustees recognise that the overall level of benefits provided from the Money Purchase Section will be higher if the assets perform strongly. Hence, assets which offer the prospect of long-term growth are held. The Trustees also recognise that material falls in the value of the assets could result in the Scheme being called upon to meet the underpin which over time will be funded by the employers.

The Trustees recognise that the investment options available to members arise out of a balancing act between the desire for good levels of return to seek good member outcomes in terms of the level of benefits provide and the wish to avoid the funding strain caused by the underpin biting.

The Trustees have decided not to offer members a range of investment options due to the provision of the underpin. Instead all monies are invested in a single investment option suitable for all members given the benefit offered.

Details of the investments of the Money Purchase Section are provided in the Appendix.

Members' funds are invested in a with profits fund. This single pooled fund vehicle is designed to provide investment growth over time whilst also smoothing out the rate of return applied. Members' best interests are met by seeking to ensure the growth in the value of the Retirement Fund over time, whilst seeking to reduce the risk of large falls in value. This minimises the risk of not meeting member expectations at retirement where the underpin benefit does not bite and reducing the reliance on employer funding to meet the underpin benefit where is does.

Realisation of investments

It is expected that a member's Retirement Fund will be realised by the Trustees when that member retires.

3. Implementation

3.1 Implementation of the Investment Strategy

Day-to-day management of the assets is delegated to one or more investment managers. The Trustees, on the basis of investment advice, are satisfied that the investment managers have the appropriate knowledge and experience for managing the investments.

The Trustees, in conjunction with their investment adviser, regularly review each of the investment managers to ensure that the manager remains competent and that the assets continue to be managed in accordance with the manager's mandate.

The investments are made in pooled investment vehicles and it is recognised that the mandates of these vehicles cannot be tailored to the Trustees' particular requirements. However, the Trustees ensure that the pooled investment vehicles are appropriate to the circumstances of the Scheme and that the chosen vehicles will enable the Trustees to achieve their investment objectives.

Details of the investment manager mandates are provided in the Appendix.

3.2 Safekeeping of Assets

To ensure safekeeping of the assets, ownership and day to day control of the assets is undertaken by custodian organisations which are independent of the sponsoring employer and the investment managers. Where pooled investment vehicles are used, the custodians will typically be appointed by the investment manager.

3.3 Regulated Markets and Derivatives

Assets are invested predominantly on regulated markets, as so defined in legislation. Any investments that do not trade on regulated markets are kept to a prudent level.

The investment managers are permitted to use derivative instruments to reduce risk (for example to mitigate the impact of a potential fall in markets) or for efficient portfolio management. Efficient portfolio management would include using derivatives as a cost-effective way of gaining access to a market or as a method for generating capital and/or income with an acceptable level of risk.

4. Risks and Other Matters

4.1 Investment Risks

Identification, measurement and management of risk form an integral part of the process adopted by the Trustees to determine an appropriate investment strategy. The principal investment risks are summarised in Appendix 2 together with an explanation of how the risks are managed.

4.2 Sustainable Investing and Corporate Governance

The Trustees invest primarily through pooled investment vehicles. It is therefore accepted that the extent to which corporate governance, socially responsible practices and ethical behaviour are used in the selection of suitable investments will be determined by the investment managers' own policies on these matters.

Similarly, it is accepted that ongoing engagement with companies in which investments are made (including the exercise of voting rights) will also be determined by the investment managers' own policies.

5. Future Amendments

From time to time, and following receipt of advice from its investment adviser, the Trustees may agree to make changes to the investment strategy set out in this statement. Any such changes will be summarised in an addendum to this statement

Before any changes are made to the investment strategy, the Trustees will consult with the sponsoring employer.

The principles set out in this statement have been agreed by the Trustees:

.... Date: 28/1/19

For and on behalf of the Trustees of the RCA Pension Scheme

Appendix 1A: Current Investment Strategy

Fund Manager

The Trustees have appointed Prudential to manage the assets of the Money Purchase Section of the Scheme. Further details of the specific arrangements in place with Prudential are contained in this Appendix.

The mandate the Trustees have given to Prudential reflects the principles and policies as set out in the main body of this Statement.

Selected Fund

The Trustees have decided to invest the assets of the Money Purchase Section in the following fund:

Pooled investment fund	Fund objective	Total Expense Ratio
Prudential With-Profits Fund	To offer competitive long-term returns	0.65% p.a.

Asset Allocation

The Prudential With-Profits Fund invests in a diversified portfolio of UK and overseas equities, bonds, property and cash. The allocation can change over time at the discretion of the fund manager, but it is expected that a significant proportion of the fund will be invested in equities and property.

Expected Return

Over the long-term (in excess of ten-year periods) it is expected that the return achieved on the asset portfolio underlying the With-Profits Fund will be in excess of inflation and will be between the return achieved on a portfolio of investment grade UK corporate bonds and the return achieved on a portfolio of global equities.

The selected fund is expected to deliver long-term growth with lower volatility than is associated with equity markets.

Having considered the requirement to provide an underpin and the relatively small value of the assets of the Money Purchase Section, the Trustees have decided not to make any other funds available to members of the Money Purchase Section.

Appendix 1B: Risks

Currency Risk

The risk that the value of the Scheme's investments fluctuates because of changes in foreign exchange rates.

This risk arises because the Prudential With-Profits Fund includes an allocation to overseas assets. The resulting currency exposure is not hedged back to sterling, but overall returns are smoothed by the use of bonuses to provide a more stable return.

Interest Rate Risk

The risk that the value of the Scheme's investments fluctuates because of changes in market interest rates.

This risk arises because the Prudential With-Profits Fund includes an allocation to bonds. Volatility that arises as a consequence will be smoothed through the fund manager's use of bonuses.

Other Price Risk

The risk that the value of the Scheme's investments fluctuates because of changes in market prices.

To manage this risk, a diversified portfolio of Growth Assets is held. This is designed to avoid excessive reliance on a single asset class or region and, in particular, to reduce the impact of a large fall in equity markets. The risk is further mitigated through the fund manager's use of bonuses.

Annuity Purchase Risk

The risk that the price of an annuity increases more than the value of a member's Retirement Fund in the period shortly before retirement.

This risk is mitigated through the fund manager's use of bonuses which smooths the returns awarded on a member's Retirement Fund. In addition, the underpin guarantees that a minimum level of retirement income will be secured for a member.

Credit Risk

The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Direct Credit Risk arises from the investment in the Prudential With-Profits Fund. The risk is mitigated through the legal structure of the investment – the fund is accessed via a unit-linked insurance policy. The assets backing the With-Profits Fund are held in a long-term fund which is separate from shareholder assets. The Prudential is subject to capital requirements and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority.

Indirect Credit Risk arises from the bond assets which are held within the With-Profits Fund. This credit risk is accepted by the fund manager if the expected return is considered appropriate for the level of risk.

Appendix 1B: Risks (continued)

Real Return Risk

The risk that the assets do not deliver a long-term return in excess of inflation.

The Prudential With-Profits Fund is expected to deliver positive real returns over the longer term.

Investment Manager Risk

The risk that an investment manager does not deliver returns in line with expectations.

The Trustees take independent advice on the selection of funds and the ongoing suitability of the chosen investment managers is regularly monitored. The assessment of ongoing suitability includes consideration of qualitative factors in addition to analysis of the manager's performance.