

THE TEDDINGTON CONTROLS LTD RETIREMENT BENEFITS SCHEME

Annual Governance Statement by the Chair of the Trustee for the Scheme For The Period 6 April 2018 to 5 April 2019

Introduction

This statement has been prepared in accordance with regulation 23 the Occupational Pension Scheme (Scheme Administration) Regulations 1996, as amended (the "Administration Regulations"), and related Pensions Regulator guidance.

It relates to The Teddington Controls Ltd Retirement Benefits Scheme (the "Scheme"), which provides benefits on a money purchase basis.

This statement covers the period from 6 April 2018 to 5 April 2019.

Dalriada Trustees Limited (Dalriada) was appointed sole trustee to the Scheme in October 2016.

The Scheme is closed to new members.

Schemes funds are invested in three policies with Royal London, being the Crest Secure and Crest Growth policies as well as the Royal London Retirement Solutions policy. These policies are no longer able to accept contributions.

The Crest Secure fund is similar to a with profits fund but with a lower exposure to the stock market. As a result there is no terminal bonus although a regular bonus is added to the fund's value from time to time.

The Crest Growth fund and the Retirement Solutions policy invest in a range of Royal London unitised funds offering equity, fixed interest and cash options.

Members whose funds are invested in the Crest Growth policy may switch funds once a year without charge. There is no restriction to switching funds under the Retirement Solutions policy.

There is no automatic life-styling under these policies.

The default investment arrangement is the Crest Secure policy.

Generally, the aim is to deliver growth over the member's lifetime within the Scheme without excessive risk taking.

The Scheme was contracted out of the State Second Pension (previously the State Earnings Related Pension Scheme, SERPS) and, as a result, both members and the employer would have paid lower National Insurance contributions.

However, because the Scheme was contracted out, part of a member's fund must be used to provide members with benefits broadly equal to those they would have received had they not been contracted out. To the extent that there is a shortfall in the cost of providing these minimum benefits, this has to be met by the sponsoring employer.

Currently, there is a shortfall and the sponsoring employer is making regular payments to a contingency fund and, to the extent necessary, making additional payments when members come to take their benefits. This does limit the options available to both Dalriada and the sponsoring employer with regard to the Scheme as the Scheme cannot be wound up without crystallising the funding shortfall in full.

Default arrangement

A number of requirements of the Administration Regulations, which are referred to in this statement, relate only to a "default arrangement" as defined in the Administration Regulations. The Scheme does not have a default fund for ongoing accrual. It is not a qualifying scheme within the meaning given by section 99 of the Pensions Act 2008. It is not used to meet any auto-enrolment obligations and no contributions are being paid into the Scheme.

The Scheme did not offer a Default Lifestyle Strategy.

Statement of Investment Principles

Ordinarily, trustees should prepare a statement of investment principles ("SIP") governing decisions about investments. This is a requirement for schemes with membership of 100 members or more.

No Statement of Investment Principles exists for the Scheme as it has fewer than 100 members and as such is not a requirement.

Review of default strategy and default arrangements

As noted above, as there is no default arrangement or default strategy in place for the Scheme at the current time then there has been no review of the default arrangement or default strategy in the year in question and no previous review for which a date can be given.

Core Financial Transactions

Trustees have a specific duty to ensure that core financial transactions relating to defined contribution (DC) schemes are processed promptly and accurately. These include the following:

- investing contributions in the Scheme
- transferring assets related to members into or out of the Scheme
- transferring the assets between different investments within the Scheme
- making payments from the Scheme to or on behalf of the members.

As the Scheme is closed to new members and is not accepting ongoing member contributions, regular transactions and routine administration tasks are limited to those in relation to settlement of members' benefits.

- Scheme administration is undertaken by Royal London
- Investment fund administration fund administration and custody of assets is undertaken by Royal London
- Investment management is undertaken by Royal London.

Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible.

Benefit settlements are generally processed through Dalriada so Dalriada has oversight of these activities.

Royal London's Service Standards for switches are next working day however there have been no ad-hoc switches over the 2018/19 Scheme Year. For disinvestments, Royal London to complete 95% within 5 to 10 working days from the date the last piece of information is received. Royal London have met this target for the 2018/19 Scheme Year.

Royal London have confirmed there have been no breaches of the requirements on these core financial transactions during the 2018/19 Scheme year.

Generally, Royal London's timescales for producing benefit quotations and the annual benefit statements remain slow and Dalriada is continuing to try and improve performance in these areas.

Charges and Transaction Costs

The new governance rules require the Trustees to make an assessment of charges and transactions costs borne by the DC scheme members and the extent to which those charges and costs represent good value for money for members.

Member funds are invested in one or more of the three policies under the Scheme, managed by Royal London, being either Crest Growth, Crest Secure or the Retirement Solutions policies.

All transaction costs for the Crest Secure policy are taken into account in the declared level of interest each year.

Under the Crest Growth policy there is a 1% Annual Management Charge applied together with a 5% bid offer spread (i.e. a price differential between the cost of buying and selling units).

Under the Retirement Solutions policy there is 0.75% Annual Management Charge and no bid offer spread.

Under the Crest Growth policy, members are able to switch investments once a year, free of charge.

There is no restriction to switching funds under the Retirement Solutions policy.

Members are not able to switch investments under the Crest Secure policy.

Members are not charged extra when they stop contributing which is significant to the extent that the Scheme is closed to new members and the policies in which the Scheme is invested are no longer able to accept contributions.

There are no exit charges when members access their benefits on retirement. However, charges may apply in other circumstances.

No maximum charge cap applies to the Scheme.

All administration and other costs of managing the Scheme are met either under the terms of the contract or by the sponsoring employer.

However, Dalriada is satisfied that the overall level of charges is acceptable taking into account the circumstances of the Scheme, not least that the Scheme cannot be wound up without crystallising a material funding shortfall.

At the time of preparing this Statement, Royal London has not provided the information with regard to charges as applied to members funds but Dalriada will update the Statement as soon as we have the information.

"Good value" assessment of charges and transactions

Dalriada has assessed the extent to which the charges described above represent "good value" for members during the Scheme year, by considering the level of member borne charges against the benefits attributable to such charges.

Whether something represents "good value" is not capable of being precisely defined, but for these purposes, the Trustee considers that charges may be viewed as representing "good value" for members where an optimum combination of cost and quality is achieved for the membership as a whole, relative to other options available in the market.

Royal London Internal Controls – Royal London refer trustees and members to the Royal London Mutual Insurance Society Limited Annual Report and Accounts which are publicly available on their website;

<https://www.royallondon.com/siteassets/site-docs/about-us/corporate-governance/annual-report-and-accounts-2018.pdf>

The Royal London Group is defined as The Royal London Mutual Insurance Society Limited and its subsidiaries. Page 38/39 of the Annual Report and Accounts is focused on their Risk Management and Internal Controls. The Board is responsible for the Group's system of risk management and internal control, as well as for reviewing its effectiveness. Page 40 sets out the Group's risk Governance structures and the risk responsibilities of the Board and Management.

Royal London has confirmed that, since the Annual Report and Accounts covers the period ending 31 December 2018, that there have not been any material balance sheet events since that date.

Royal London monitor their Service Levels. All administration for these schemes is dealt with by one central team and this particular type of work is checked by a second user. Their work is regularly monitored by a separate Quality Assurance team and they are also internally audited from time to time.

Dalriada also monitors Royal London's performance ongoing.

Dalriada met with Royal London in early 2019. Previously we have expressed concern over certain aspects of Royal London's performance and, whilst there have been some improvements, certain aspects continue to fall short, in particular the preparation of the Annual Member Benefit Statements and provision of information for the preparation of the annual Report and Accounts.

Dalriada will continue to work with Royal London to drive improvements in these areas also over the course of the next year.

Notwithstanding the issues with some parts of the administration service provided by Royal London, currently the administration charges are provided under the terms of the policy without explicit charges being levied. Given this, it would be difficult to look to alternative providers without incurring significant additional costs.

Also as commented above, there is no straightforward exit option from the contract as the Scheme provides a GMP underpin for some members.

The cumulative effect over time of the application of charges and costs on the value of a member's accrued rights to money purchase benefits – Royal London has provided illustrations of the cumulative effect of costs and charges for a typical member of each of the three funds. Copies of these illustrations are appended to this Statement. These are produced for illustrative purposes and members are asked to note the assumptions used both on the assumed growth rate and the rate of inflation.

Should members have any queries with regard to these illustrations, they should contact Dalriada in the first instance.

Dalriada will make a copy of the Chairman's statement available to members on a website. Members will be notified about this shortly.

Trustee Knowledge and Understanding

Dalriada has considered the latest guidance in relation to Chairman's Statements from The Pensions Regulator and has ensured that its practices reflect the requirements. I have set out below how Dalriada ensures it currently meets the knowledge and understanding requirements of trustees.

Dalriada is an independent professional trustee, established in 2003.

Dalriada is on The Pensions Regulator's register of independent trustees.

Knowledge of the trust deed and rules and all documents setting out the trustee's current policies

The Scheme has a dedicated lead trustee representative, Sean Browes, who has an in depth knowledge of the Scheme and its governing documentation.

Sean has been working in the pensions industry since he graduated in 1988. He worked for two major benefit consultancies in both administration management and consultancy roles, before joining Dalriada in 2003. Sean has a broad range of skills and experience suited to all areas of pension scheme management.

Sean is supported by a client team, including experienced pension scheme administrators. Adrian Kennett is the Dalriada Board Director with ultimate responsibility for the Scheme.

At the point of becoming Independent Trustee to the Scheme, a prescribed take on process was followed. This included an assimilation and review of all the relevant scheme documentation, including the trust deed and rules.

In addition to the knowledge held by the client, Dalriada will obtain legal advice in relation to the Scheme's documentation, where necessary.

There have been no new trustees introduced in this reporting period. However, it is recognised that an appropriate induction process should be in place to support the addition of new trustees. This is under review and will be put in place within the next reporting period.

A working knowledge of the current Statement of Investment Principles (SIP)

As is set out earlier, the Scheme does not have a SIP at this time due to particular circumstances of the Scheme.

Sufficient knowledge and understanding of the law relating to pensions and trusts and understanding of the principles relating to the funding and investment of occupational schemes

Those Dalriada staff working on the Scheme, including the lead trustee representative, are obliged to self evaluate their learning and development requirements on an annual basis as part of Dalriada's internal appraisal process. The process identifies how staff can develop their knowledge and understanding, as well as where they can share their expertise in order to best support the Scheme. Dalriada staff are also required to comply with their respective training requirements in order to maintain a required level of continuing professional education (CPE) and to provide evidence of courses, seminars and other types of professional development to satisfy their respective professional bodies' CPE requirements.

Every trustee representative is required to undertake a minimum number of hours training in a year. This is recorded centrally by Dalriada's HR Team and, where appropriate, forms part of staff personal development plans. This training can include internal and external courses and attendance at industry events, as well as a degree of self learning by way of subscriptions to professional publications and electronic information channels.

Further, every trustee representative is required to complete The Pensions Regulator's Trustee Toolkit and subscribes to the updates issued by The Pensions Regulator.

Trustee representatives belong to Dalriada's knowledge management network which keeps them up to date with industry thinking. They also have access to a team of in house pensions experts who inform the team about changes to pensions legislation and practices.

All Dalriada trustees representatives have access to Pendragon Perspective and Aries - both industry leading tools, giving access to pension legislation.

Dalriada has its own in house legal specialists to provide support and guidance to trustee representatives around legislation and interpretation of scheme documentation. This is further aided by advice from external legal advisers, which is obtained when it is felt reinforcement is necessary to support Dalriada's own understanding.

Combined knowledge and understanding, together with available advice enables the trustees to properly exercise their function

Dalriada has informally assessed the skill set and experience of each member of the client team. It has taken into account the development activities already mentioned, along with the internal resources made available to staff, supplemented, where required, by professional external advice.

A more formal assessment of the skills of the team will be done annually using a skills matrix developed for this purpose. Any areas for development flagged during this process will be addressed as part of the individual's personal development plan and reviewed throughout the year.

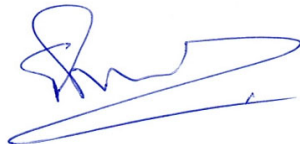
I consider that the combined knowledge and understanding of the client team enables them to exercise properly their function as trustee of the Scheme. In particular:

- Members of the client team have the relevant financial knowledge and experience to enable Dalriada to comply with its duties in relation to investment of the Scheme's assets.
- There is a vast range of pensions experience and knowledge within the client team. This is appropriate to deal with the governance of the Scheme in line with the trust deed and rules, along with other scheme documentation. There is also a great deal of experience relevant to dealing with issues which might be thrown up by the Scheme which require the amendment of scheme documentation.
- Sean Browes has many years of experience in the administration of pension schemes, allowing him a keen oversight of the administration of the Scheme.

Member Representation

Dalriada is aware that members will be keen to keep up to date with regard to their benefits under the Scheme. As such, we look to keep members informed by way of the issuing of their annual benefit statements and, where appropriate, summary funding statements, and, in doing so, provide members with dedicated access points to Dalriada by means of phone and e-mail as well as a contact address.

Signed for and on behalf of Dalriada Trustees Limited (the trustee)



Chairman

Date 31 October 2019

Retirement Solutions

Occupational pension scheme - typical paid-up member data

Table 1

This table shows the projected value of a typical member's plan in the current scheme as at 01/08/2018.

| Projected pension pot in today's money | | | | | | | | | |
|--|---------------------------------------|----------------|------------------------------------|----------------|------------------------------------|----------------|------------------------------------|----------------|------------------------------------|
| Years | Value of payments made, no investment | Fund choice | | Fund choice | | Fund B | | Fund C | |
| | | Default Fund | | Fund A | | | | | |
| | | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted |
| 1 | £ 11,906 | £ 12,054 | £ 11,934 | £ 12,406 | £ 12,282 | £ 12,025 | £ 11,905 | £ 12,168 | £ 12,046 |
| 3 | £ 11,332 | £ 11,761 | £ 11,412 | £ 12,821 | £ 12,440 | £ 11,676 | £ 11,329 | £ 12,097 | £ 11,737 |
| 5 | £ 10,786 | £ 11,475 | £ 10,913 | £ 13,250 | £ 12,600 | £ 11,336 | £ 10,781 | £ 12,026 | £ 11,437 |
| 10 | £ 9,533 | £ 10,790 | £ 9,758 | £ 14,385 | £ 13,010 | £ 10,531 | £ 9,524 | £ 11,851 | £ 10,718 |
| 15 | £ 8,426 | £ 10,146 | £ 8,726 | £ 15,619 | £ 13,433 | £ 9,782 | £ 8,413 | £ 11,679 | £ 10,044 |
| 20 | £ 7,447 | £ 9,541 | £ 7,803 | £ 16,958 | £ 13,870 | £ 9,087 | £ 7,433 | £ 11,509 | £ 9,413 |
| 25 | £ 6,582 | £ 8,971 | £ 6,978 | £ 18,411 | £ 14,321 | £ 8,442 | £ 6,566 | £ 11,341 | £ 8,821 |
| 30 | £ 5,818 | £ 8,436 | £ 6,240 | £ 19,989 | £ 14,786 | £ 7,842 | £ 5,801 | £ 11,176 | £ 8,267 |
| 35 | £ 5,142 | £ 7,932 | £ 5,580 | £ 21,703 | £ 15,267 | £ 7,284 | £ 5,124 | £ 11,014 | £ 7,748 |
| 40 | £ 4,545 | £ 7,459 | £ 4,990 | £ 23,563 | £ 15,763 | £ 6,767 | £ 4,527 | £ 10,853 | £ 7,261 |

Table 2

This table shows the projected growth rate for each fund as at 01/08/2018.

| Fund choice | Investment name | Investment growth rate | Plans with this investment | AMC | Transaction costs* |
|--------------|---|------------------------|----------------------------|-------|--------------------|
| Default fund | Balanced Retirement Investment Strategy | 1.2% | 67 | 1.00% | 0.10% |
| Fund A | RLP Managed | 4.2% | 16 | 1.00% | 0.09% |
| Fund B | RLP Deposit | 1.0% | 7 | 1.00% | -0.01% |
| Fund C | RLP Fixed Interest | 2.2% | 5 | 1.00% | -0.28% |

*Transaction costs are incurred by asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in.

Transactions costs are not available for all funds because the information has not been provided by all of our external fund management partners.

Notes

- The projected pension values are shown in today's terms and take into account the effect of future inflation, which we've assumed will be 2.5%.
- The starting pot size is assumed to be £12204 and that no further contributions will be made.
- Lifestyle strategies reduce how much exposure is placed upon the retirement savings the closer the member gets to their chosen retirement age. Plans are invested in company stocks and shares in the early years and the closer they are to their retirement, are gradually switched into other assets. And whilst this reduces their exposure to the stock market, the expected growth rate can change depending on how long is left until retirement. Within these projections we've calculated these on a single equivalent growth rate using an average time to retirement over a full projection period.
- Values shown are estimates and are not guaranteed
- Member data, including the fund value and contribution levels were last reviewed on 01 August 2018.
- TERs and transaction costs provided by Royal London are correct at 01 August 2018.

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Occupational pension scheme - typical paid-up member data

Table 1

This table shows the projected value of a typical member's plan in the current scheme as at 01/08/2019.

| Projected pension pot in today's money | | | | | | | | | |
|--|---------------------------------------|----------------|------------------------------------|----------------|------------------------------------|----------------|------------------------------------|----------------|------------------------------------|
| Years | Value of payments made, no investment | Fund choice | | Fund Choice | | Fund B | | Fund C | |
| | | Default Fund | | Fund A | | Fund B | | Fund C | |
| | | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted | Before Charges | After all charges + costs deducted |
| 1 | £ 6,702 | £ 6,702 | £ 6,630 | £ 6,702 | £ 6,629 | £ 6,702 | £ 6,635 | £ 6,702 | £ 6,654 |
| 3 | £ 6,379 | £ 6,940 | £ 6,718 | £ 6,926 | £ 6,703 | £ 6,637 | £ 6,440 | £ 6,663 | £ 6,520 |
| 5 | £ 6,072 | £ 7,187 | £ 6,807 | £ 7,158 | £ 6,777 | £ 6,572 | £ 6,250 | £ 6,624 | £ 6,389 |
| 10 | £ 5,366 | £ 7,844 | £ 7,036 | £ 7,771 | £ 6,966 | £ 6,413 | £ 5,800 | £ 6,527 | £ 6,073 |
| 15 | £ 4,743 | £ 8,560 | £ 7,273 | £ 8,438 | £ 7,161 | £ 6,258 | £ 5,383 | £ 6,432 | £ 5,772 |
| 20 | £ 4,192 | £ 9,342 | £ 7,518 | £ 9,161 | £ 7,361 | £ 6,107 | £ 4,995 | £ 6,339 | £ 5,486 |
| 25 | £ 3,705 | £ 10,196 | £ 7,771 | £ 9,946 | £ 7,567 | £ 5,960 | £ 4,636 | £ 6,247 | £ 5,215 |
| 30 | £ 3,275 | £ 11,127 | £ 8,032 | £ 10,799 | £ 7,778 | £ 5,816 | £ 4,302 | £ 6,156 | £ 4,956 |
| 35 | £ 2,895 | £ 12,144 | £ 8,302 | £ 11,724 | £ 7,996 | £ 5,675 | £ 3,992 | £ 6,066 | £ 4,711 |
| 40 | £ 2,558 | £ 13,253 | £ 8,582 | £ 12,729 | £ 8,219 | £ 5,538 | £ 3,705 | £ 5,978 | £ 4,478 |

Table 2

This table shows the projected growth rate for each fund as at 01/08/2019.

| Fund choice | Investment name | Investment growth rate | Plans with this investment | AMC | Transaction costs* |
|---------------|---|------------------------|----------------------------|-------|--------------------|
| Default fund: | Balanced Retirement Investment Strategy | 4.31% | 52 | 1.00% | 0.08% |
| Fund A: | RLP Managed | 4.20% | - | 1.00% | 0.09% |
| Fund B: | Crest UWP | 2.00% | - | 1.00% | 0.00% |
| Fund C: | RLP Fixed Interest | 2.20% | - | 1.00% | -0.28% |

*Transaction costs are incurred by asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in.

Transactions costs are not available for all funds because the information has not been provided by all of our external fund management partners.

Notes

- The projected pension values are shown in today's terms and take into account the effect of future inflation, which we've assumed will be 2.5%.
- The starting pot size is assumed to be £6869 and that no further contributions will be made.
- Lifestyle strategies reduce how much exposure is placed upon the retirement savings the closer the member gets to their chosen retirement age. Plans are invested in company stocks and shares in the early years and the closer they are to their retirement, are gradually switched into other assets. And whilst this reduces their exposure to the stock market, the expected growth rate can change depending on how long is left until retirement. Within these projections we've calculated these on a single equivalent growth rate using an average time to retirement over a full projection period.
- Values shown are estimates and are not guaranteed
- Member data, including the fund value and contribution levels were last reviewed on 01 August 2019.
- TERs and transaction costs provided by Royal London are correct at 01 August 2019.

Occupational pension scheme - typical paid-up member data

Table 1

This table shows the projected value of a typical member's plan in the current scheme as at 01/08/2019.

| Projected pension pot in today's money | | Fund choice | | The default fund is the only possible selection for this product. | |
|--|---------------------------------------|----------------|------------------------------------|---|--|
| Years | Value of payments made, no investment | Default Fund | | | |
| | | Before Charges | After all charges + costs deducted | | |
| 1 | £ 22,292 | £ 22,292 | £ 21,969 | | |
| 3 | £ 21,218 | £ 22,685 | £ 21,713 | | |
| 5 | £ 20,196 | £ 23,086 | £ 21,460 | | |
| 10 | £ 17,850 | £ 24,117 | £ 20,840 | | |
| 15 | £ 15,777 | £ 25,195 | £ 20,237 | | |
| 20 | £ 13,944 | £ 26,320 | £ 19,653 | | |
| 25 | £ 12,325 | £ 27,496 | £ 19,085 | | |
| 30 | £ 10,893 | £ 28,725 | £ 18,533 | | |
| 35 | £ 9,628 | £ 30,008 | £ 17,998 | | |
| 40 | £ 8,510 | £ 31,349 | £ 17,478 | | |

Table 2

This table shows the projected growth rate for each fund as at 01/08/2019.

| Fund choice | Investment name | Investment growth rate | Plans with this investment | AMC | Transaction costs* |
|---------------|-----------------|------------------------|----------------------------|-------|--------------------|
| Default fund: | Deposit Admin | 3.40% | 3 | 1.45% | 0.00% |

*Transaction costs are incurred by asset managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the daily unit price for each Royal London fund your policy is invested in.

Transactions costs are not available for all funds because the information has not been provided by all of our external fund management partners.

Notes

1. The projected pension values are shown in today's terms and take into account the effect of future inflation, which we've assumed will be 2.5%.
2. The starting pot size is assumed to be £22850 and that no further contributions will be made.
3. Lifestyle strategies reduce how much exposure is placed upon the retirement savings the closer the member gets to their chosen retirement age. Plans are invested in company stocks and shares in the early years and the closer they are to their retirement, are gradually switched into other assets. And whilst this reduces their exposure to the stock market, the expected growth rate can change depending on how long is left until retirement. Within these projections we've calculated these on a single equivalent growth rate using an average time to retirement over a full projection period.
4. Values shown are estimates and are not guaranteed
5. Member data, including the fund value and contribution levels were last reviewed on 01 August 2019.
6. TERs and transaction costs provided by Royal London are correct at 01 August 2019.