

# Chair's Annual Statement

## Introduction

As the Chair of the Trustees, I provide a yearly statement which explains what steps have been taken by the Trustee board over the past 12 months, with help from our professional advisers, to meet and maintain governance standards introduced in 2015 for defined contribution (DC) pension plans such as the Quartz top-up and Topaz. These standards were designed to help members achieve a good outcome from their pension savings.

The law sets out what information must be included in my statement and this is covered in sections 1 to 4 below.

The Trustees continue to be committed to high governance standards and we have regular meetings throughout the Scheme year at which we monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact Phil Farrell, Secretary to the Trustees, using the following contact details:

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Secretary to the Trustees of The Crown Estate Pension Scheme  
Quantum Advisory  
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## 1. Default investment arrangement

The default investment arrangement is provided for members who join the Scheme and do not choose an investment option for their contributions. During the Scheme year approximately 45% of Quartz Top-Up and Topaz section members had their contributions invested in the Scheme's default investment arrangement.

### Setting an appropriate investment arrangement

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default investment arrangement.

For the year under review, and in previous years, we had chosen the Cautious Lifestyle Profile as the Scheme's default investment arrangement. A lifestyle profile automatically performs a gradual switch of a member's investment holdings, from higher risk to lower risk funds, over a set time period prior to their Normal Retirement Age.

The Cautious Lifestyle Profile was made up of the following funds:

- BlackRock DC Aquila Connect Balanced Fund
- Legal & General Investment Management (LGIM) Corporate Bond All Stocks Index Fund
- LGIM Pre-Retirement Fund
- LGIM Cash Fund

Details of the investment strategy and investment objectives of the Scheme's default arrangement are recorded in a document called the Statement of Investment Principles. A copy of this document can be found on page 56.

However, as outlined below, after the end of the year under review the Trustees changed the default investment arrangement.

### **Reviewing the default investment arrangement**

The Trustees are expected to:

- review the investment strategy and objectives of the Scheme's default investment arrangement at regular intervals, and at least once every 3 years; and
- take into account the needs of the Scheme membership when designing the default investment arrangement.

The Trustees review the objectives and investment performance of the underlying funds of the default arrangement on a quarterly basis and take advice from Quantum Advisory, the Scheme's investment advisers as appropriate.

The Trustees undertook a review of the Scheme's DC investment options, including the default investment strategy during 2018 and 2019. This involved an analysis of Scheme membership data and member feedback which was obtained through the issue of a member survey, as well as consideration of the activity of other UK pension schemes.

Based upon this analysis, the Trustees concluded that the Scheme's default investment strategy should be changed from one which targets the purchase of an annuity at retirement to one which targets income drawdown as they believe that this will be the most popular choice of members when they come to retire. The Trustees also decided that the composite funds of the lifestyle strategy should be changed along with a shortening of the pre-retirement de-risking phase with the aim of improving member outcomes at retirement i.e. higher potential investment returns and a longer period over which they can be achieved.

The new set of DC investment options became available to members from 1 June 2019.

## 2. Charges and transaction costs paid by members

We are required by law to disclose the charges and transaction costs (i.e. the costs of buying and selling investments in the Scheme) which are paid by members rather than the employer. As you may know the employer pays all administration and advisory costs associated with the Scheme. However, the charges and transaction costs related to investments have a direct impact on how well your investments perform and are, therefore, something in which you should be very interested. Because of this, where information about the member costs and charges is not available, we must make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

I can confirm that there is no missing information in relation to this Chair's Annual Statement.

The level of charges applicable to the Funds included in the Scheme's default investment arrangement during the last Scheme year were:

Fund	Annual Management Charge (1)	Additional Expenses (2)	Total Charge (3)
BlackRock DC Aquila Connect Balanced Fund	0.210%	0.005%	0.215%
LGIM Corporate Bond All Stocks Index Fund	0.125%	0.000%	0.125%
LGIM Pre-Retirement Fund	0.125%	0.000%	0.125%
LGIM Cash Fund	0.100%	0.000%	0.100%

The level of charges applicable to the Funds offered under the Scheme which are not part of the Scheme's default investment arrangement during the year were:

Fund	Annual Management Charge (1)	Additional Expenses (2)	Total Charge (3)
LGIM Global Fixed Weights (50:50) Index	0.140%	0.000%	0.140%
LGIM World (ex UK) Equity Index	0.175%	0.000%	0.175%
LGIM UK Equity Index	0.090%	0.000%	0.090%
LGIM Ethical UK Equity Index	0.250%	0.000%	0.250%
LGIM Managed Property	0.700%	0.030%	0.730%
LGIM All Stocks Gilts Index	0.080%	0.000%	0.080%

### Notes:

(1) This element of the total charge payable by members covers the investment manager's fees for investing the money and managing the investments in the fund including the manager's pay.

(2) This cost relates to the fund's operational expenses such as trading fees, legal fees, auditor fees, administration services, accounting fees, custodian and settlement charges for the investments the fund holds.

(3) This is the total charge payable by members ((1)+(2)).

In addition, the Trustees are required by law to disclose information relating to transaction costs in respect of any investment vehicle available to Scheme members.

The transaction costs for the one-year period to 31 March 2019 are shown below:

Fund	Total Transaction Costs
BlackRock DC Aquila Connect Balanced Fund	-0.026%
LGIM Corporate Bond All Stocks Index Fund	-0.127%
LGIM Pre-Retirement Fund	0.031%
LGIM Cash Fund	0.004%
LGIM Global Fixed Weights (50:50) Index	-0.028%
LGIM World (ex UK) Equity Index	-0.003%
LGIM UK Equity Index	0.033%
LGIM Ethical UK Equity Index	0.041%
LGIM Managed Property	2.590%
LGIM All Stocks Gilts Index	0.029%

Please note that some transaction costs are negative due to the prescribed method for calculating them. Negative transaction costs are shown where an overall beneficial pricing environment has occurred at the point of trading underlying assets over the period, which has more than offset the costs of the trades.

### Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market.

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one.

As a starting point to assessing good value, we have compared the level of charges in each Fund with the levels of return they have delivered to members. We have also considered how the charges borne by members (the costs of membership) compare against the services and benefits provided by the Scheme (the benefits of membership). The benefits of membership include (amongst other things) the design and ongoing governance of the Scheme’s default investment arrangement and how this reflects the interests of members; the wide range of investment options and strategies; the efficiency of administration processes and the extent to which Quantum Advisory, the Scheme’s administrators, met and exceeded the agreed service level standards for the Scheme year (as reported upon in their quarterly administration reports); the quality of communications delivered to members such as the annual Trustees’ newsletter, annual benefit statements and online member portal; and the quality of support services and Scheme governance demonstrated by the Trustees and their appointed professional advisers.

Based on the assessments undertaken by the Trustees during the year, we have concluded that the Scheme continues to represent good value for members.

## Active member – Illustration of the possible impact of costs

The figures in the table below show the possible effect of the fund managers' charges on an active member's fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below and reflects statutory guidance.

Projected Pension Account in today's money: -

Projected Pension Account in today's money								
	Fund choice							
	Default investment strategy		LGIM Cash Fund		LGIM UK Equity Index Fund		LGIM All Stocks Gilts Index Fund	
Years to retirement	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	£28,700	£28,700	£28,500	£28,500	£29,500	£29,500	£28,600	£28,600
3	£40,500	£40,400	£39,500	£39,400	£43,300	£43,200	£39,900	£39,900
5	£52,800	£52,500	£50,500	£50,300	£58,200	£58,000	£51,400	£51,200
10	£87,100	£86,300	£77,900	£77,400	£101,000	£100,000	£80,400	£80,000
15	£128,000	£126,000	£105,000	£104,000	£152,000	£151,000	£110,000	£109,000
20	£175,000	£171,000	£133,000	£131,000	£215,000	£212,000	£141,000	£139,000
25	£228,000	£222,000	£160,000	£158,000	£290,000	£286,000	£172,000	£170,000
30	£290,000	£281,000	£188,000	£185,000	£382,000	£375,000	£204,000	£201,000
35	£361,000	£347,000	£215,000	£211,000	£493,000	£483,000	£237,000	£233,000
40	£442,000	£422,000	£243,000	£237,000	£627,000	£613,000	£270,000	£266,000

### Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £23,000.
3. Inflation is assumed to be 2.50% each year.
4. Contributions at the rate of 9.00% are assumed to continue to retirement age and increase in line with assumed earnings inflation of 2.50% each year. Contributions are based on a current salary of £61,000 pa.
5. Values shown are estimates and are not guaranteed.
6. The projected growth rates before charges for the fund choices are as follows:
  - a. Default strategy: from 3.44% to 5.11% pa depending on how close you are to retirement.
  - b. LGIM Cash Fund: 2.50% pa.
  - c. LGIM UK Equity Index Fund: 6.50% pa.
  - d. LGIM All Stocks Gilts Index Fund: 3.00% pa.

## Deferred member – Illustration of possible impact of costs

The figures in the table below show the possible effect of the fund managers' charges on a deferred member's fund value over incremental periods for the next 40 years. The table shows the effect based on the assumptions set out in the notes below and reflects statutory guidance.

Projected Pension Account in today's money: -

Projected Pension Account in today's money								
	Fund choice							
	Default investment strategy		LGIM Cash Fund		LGIM UK Equity Index Fund		LGIM All Stocks Gilts Index Fund	
Years to retirement	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	£20,200	£20,200	£20,000	£20,000	£20,800	£20,800	£20,100	£20,100
3	£20,600	£20,600	£20,000	£19,900	£22,400	£22,400	£20,300	£20,200
5	£21,300	£21,100	£20,000	£19,900	£24,200	£24,100	£20,500	£20,400
10	£23,700	£23,400	£20,000	£19,800	£29,300	£29,100	£21,000	£20,800
15	£27,200	£26,600	£20,000	£19,700	£35,500	£35,100	£21,500	£21,300
20	£31,300	£30,300	£20,000	£19,600	£43,000	£42,300	£22,000	£21,700
25	£36,000	£34,500	£20,000	£19,500	£52,100	£51,000	£22,600	£22,200
30	£41,400	£39,300	£20,000	£19,400	£63,100	£61,500	£23,100	£22,600
35	£47,600	£44,700	£20,000	£19,300	£76,400	£74,100	£23,700	£23,100
40	£54,700	£51,000	£20,000	£19,200	£92,500	£89,400	£24,300	£23,600

### Notes

1. Projected Pension Account values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting Pension Account value is assumed to be £20,000.
3. Inflation is assumed to be 2.50% each year.
3. No further contributions are assumed.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rates for the fund choices are as follows:
  - a. Default strategy: from 3.44% to 5.11% pa depending on how close you are to retirement.
  - b. LGIM Cash Fund: 2.50% pa.
  - c. LGIM UK Equity Index Fund: 6.50% pa.
  - d. LGIM All Stocks Gilts Index Fund: 3.00% pa.

### 3. Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to the Scheme's "core financial transactions". The law specifies that these include the following:

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

We must ensure that these important financial transactions are processed promptly and accurately. In practice we delegate responsibility for this to the Scheme's administrators. Administration services for the Scheme's Quartz Top-Up and Topaz sections are provided by Quantum Advisory.

Quantum Advisory provide the Trustees with quarterly administration reports which enable us to assess how quickly and effectively the Scheme's core financial transactions are completed. Any mistakes or delays are investigated thoroughly, and action is taken to put things right as quickly as possible.

In addition, the Trustees annual report and accounts (including financial transactions) are independently audited by RSM UK Audit LLP, acting as Scheme Auditor.

I am pleased to report that there have been no material administration service issues during the Scheme year. We are confident that the processes and controls in place with the Scheme's administrators are robust, ensuring that the financial transactions which are important to members are dealt with properly.

### 4. Trustee knowledge and understanding

The Trustees are required, by law, to possess, or have access to, enough knowledge and understanding to run the Scheme effectively. We are required to have a working knowledge and understanding of the following:

- The Trust Deed and Rules
- The current Statement of Investment Principles
- Documents setting out the Trustees' current policies
- The law relating to pensions and trusts
- The relevant principles relating to funding and investment

We take our training and development responsibilities seriously and maintain a Trustee training record. This training record is reviewed annually to identify any gaps in the knowledge and understanding across the board. This allows us to work with our professional advisers to address any areas where our knowledge is less than the Pensions Regulator would expect.

All the Trustees have either registered for and have completed the Trustee Toolkit made available by the Pensions Regulator or are working to do so. The Pensions Regulator expects Trustees to complete the Trustee Toolkit and have formal induction training within six months of their appointment.

Because of the training activities which have been completed by the Trustees, individually and collectively, and considering the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustee board enables us to undertake our duties competently and in the best interests of the Scheme membership.