

AON RETIREMENT PLAN

CHAIR'S STATEMENT YEAR ENDED 31 MARCH 2019

DEFINED CONTRIBUTION GOVERNANCE STATEMENT

Annual Chair's Statement for the Aon Retirement Plan

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") requires the Trustee to prepare an annual statement regarding governance, which should be included in the annual report.

This is the fourth such statement issued by the Aon Retirement Plan ("the Plan") covering the period from 1 April 2018 to 31 March 2019 and signed on behalf of the Trustee by the Chair.

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

- The Default Arrangement;
- Processing of core financial transactions;
- Member borne charges and transaction costs;
- Illustration of the cumulative effect of costs and charges over time;
- Value for Members assessment; and
- Trustee knowledge and understanding.

1. The Default Arrangement

The Trustee is required to design default arrangements in members' interests and keep them under review. The Trustee will need to take account of the level of costs and the risk profile that are appropriate for the Plan's membership in light of the overall objective of the default arrangement strategy.

As the Defined Contribution Sections of the Plan are not being used for auto-enrolment purposes, the Trustee is not required to designate a default arrangement. However, the Trustee has made available a Default Option for members who do not wish to make an active decision regarding the investment of their assets. Please find attached at page 72, the latest Statement of Investment Principles (SIP) for the Aon Retirement Plan, dated 3 December 2015, which governs decisions about investments in the default option. The SIP is reviewed by the Trustee on an annual basis.

This strategy aims to provide members with potential for higher levels of growth during the accumulation phase of their retirement savings through exposure to growth assets, whilst spreading risk by investing in a range of asset classes. From 15 years before selected retirement age in the case of the annuity lifestyle and 10 years before selected retirement age in respect of the cash and drawdown lifestyles, funds are gradually switched to less risky assets to reduce the risk of volatility on the fund and to target the format in which the Trustee expects members to access their DC benefits.

Performance of the funds is monitored on a quarterly basis at a meeting of the Funding and Investment Sub-Committee (FISC) who track performance against the benchmark of the funds. The Trustee raises any concerns with the fund manager and Aon Hewitt Limited as part of this review. During the year, the Trustee requested additional information with regards to the Progressive Growth Phase Fund due to its under-performance. Additional information with regards to the future of this Fund has been provided to the Trustee to provide comfort about the future performance prospects of the Fund. The fund manager, Hewitt Risk Management Services Ltd, also monitor the funds on a more regular basis.

The Default Strategy is reviewed at least every three years and following any significant changes in the membership of the Plan. The last review of the Default Option was undertaken in 2019 and considered the needs of Plan members as well as consideration of expected member outcomes at retirement and the associated risks. A strategy will be implemented by the end of November 2019, whereby the drawdown focused lifestyle will be replaced with a Target Date Fund, also targeting drawdown. The SIP will be updated in Q4 2019 to reflect the changes in the investment strategy.

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2. Processing of Core Financial Transactions

The Trustee has a specific duty to ensure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Plan, transfers between different investments within the Plan and payments to and in respect of members) are processed promptly and accurately.

The Trustee has appointed Aon Hewitt Limited to provide administration services. To enable the Trustee to monitor the processing of core financial transactions, the Board receives quarterly administration reports from Aon Hewitt Limited on key aspects of the administration including reporting on performance against the service levels agreed (SLAs), cashflow statements showing transfers in and out, other payments made and AVC contributions (for the Aon A&A Section only). These reports are reviewed at each meeting of the Administration Sub Committee. The Trustee is not aware of any issues occurring in the Plan year.

The Trustee has also received information from Aon Hewitt Limited regarding the accuracy of data following a full data reconciliation in 2015/2016. As part of good governance, a full data reconciliation project was undertaken in 2015/2016 and no material issues were discovered. Further data cleansing took place during 2018 to ensure that the data remains as comprehensive as possible. The Trustee undertook a review of all the core financial transactions including benchmarking of SLAs against other providers in the market. As a result, revised SLAs were introduced in a number of areas as part of the administration contract renewal in April 2017.

Aon Hewitt Limited's administration team makes use of Straight Through Processing automation for investment switches, which is used to improve efficiency. This includes the administration platform being fully integrated with the investment platform to ensure that member records and fund prices are updated on a daily basis.

Both Cash and Unit Reconciliations are carried out daily and monthly. The unit reconciliations are then included in the Administration Stewardship Report and the Cash reconciliations are provided as part of the Accounts at the year end. In addition, regular DC data integrity reports are run across the DC membership that identify anomalies at member level with any discrepancies raised with the administration team. There are escalation points if there is no response or closure to the questions raised.

There are internal controls built into the processes and the EQ Administrator system so the administration team can ensure that they are consistently reviewing and looking at ways to improve.

In light of the above and that there have been no issues experienced during the year, the Trustee considers that the requirements in respect of processing core financial transactions have been met.

3. Member Borne Charges and Transaction Costs

The Trustee is required to assess the costs associated with the Plan, which are paid by the members. These costs comprise:

- 1. Explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund manager as part of the Total Expense Ratio (TER);*
- 2. Transaction Costs, such as the costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio, to the extent they are available.*

The costs of membership of the Plan comprise TERs and Transaction Costs. The TER information is readily available and deducted as a percentage of members' funds (by deduction from the unit price).

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The Default Option has levied a TER that ranges from 0.23% p.a. to 0.29% p.a. of assets under management depending on the member's period to retirement. The Trustee also makes available a range of 12 self-select funds and 2 alternative lifestyle strategies which may be chosen by members as an alternative to the default arrangement. The TERs for the funds available to members are shown below.

The Financial Conduct Authority rules on disclosure for transaction costs in a standard format came into effect for investment managers on 3 January 2018.

As defined by the Financial Conduct Authority, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time of the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in a profit, known as 'negative costs'. This can happen, for example when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down - such as some negative publicity or a big sell order by someone else.

The TERs and transactions costs for the funds available to members and which members are invested in are as follows:

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Self-Select Funds	TER (% p.a.)	Transaction Costs (%)	Total Costs (%)
Aon Managed Global Equity Fund	0.2100	0.0255	0.2355
Aon Managed Active Global Equity Fund	0.8800	0.0911	0.9711
BlackRock UK Equity Index Fund	0.0500	0.0746	0.1246
Aon Managed Active UK Equity Fund	0.8600	0.0783	0.9383
Aon Managed Property and Infrastructure Fund	0.4300	0.0868	0.5168
Aon Managed Progressive Growth Phase Fund	0.6400	0.3221	0.9621
Aon Managed Diversified Multi Strategy Bond Fund	0.6500	0.5254	1.1754
Aon Managed Long Term Inflation Linked Fund	0.1300	0.0306	0.1606
Aon Managed Pre-Retirement Bond Fund	0.2500	0.0223	0.2723
Aon Managed Liquidity Fund	0.1600	0.0158	0.1758
LGIM Ethical Global Equity Index	0.3500	0.0101	0.3601
HSBC Islamic Fund	0.3500	0.0610	0.4110

Default Option	TER (% p.a.)	Transaction Costs (%)	Total Costs (%)
Drawdown Lifestyle*	0.2300 to 0.2909	0.0313 to 0.1126	0.2613 to 0.4035
Annuity Lifestyle	0.2275 to 0.5440	0.0207 to 0.2934	0.2482 to 0.8374
Cash Lifestyle	0.1600 to 0.5200	0.0158 to 0.2862	0.1758 to 0.8062

*Default lifestyle

Although not a requirement for the Plan, the charge levied by the default arrangement was within the charge cap of 0.75% p.a. for the period under review. The Trustee considers the costs and charges of the Default Option and the self-select options to be appropriate for the size of the Plan and comparable to charges levied by other providers, based on the investment strategy review undertaken in 2015. The next review is in progress and due to be implemented in Q4 2019.

There are also legacy AVC funds in which some members have assets invested. These consist of the Equitable Life With Profits Funds, the Prudential With Profits Fund, the Scottish Widows Conventional With Profits Funds and the Phoenix Nelex Guaranteed Growth Fund. These funds are not available for AVC members to select going forward. The charges on these with profits funds and Phoenix Nelex Guaranteed Growth Fund are not explicit and are taken into account in the bonus declared on each fund.

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4. Illustration of the cumulative effect of costs and charges

The Trustee is required to illustrate the cumulative effect of the costs and charges typically paid by a member on their retirement values over time (as a "pounds and pence figure").

The Trustee has produced the following illustrations to demonstrate the effect of the above charges for investment funds and strategies representative of the Plan's membership.

Members are primarily invested in the default arrangement (around 74% of members) i.e. The Drawdown Lifestyle strategy.

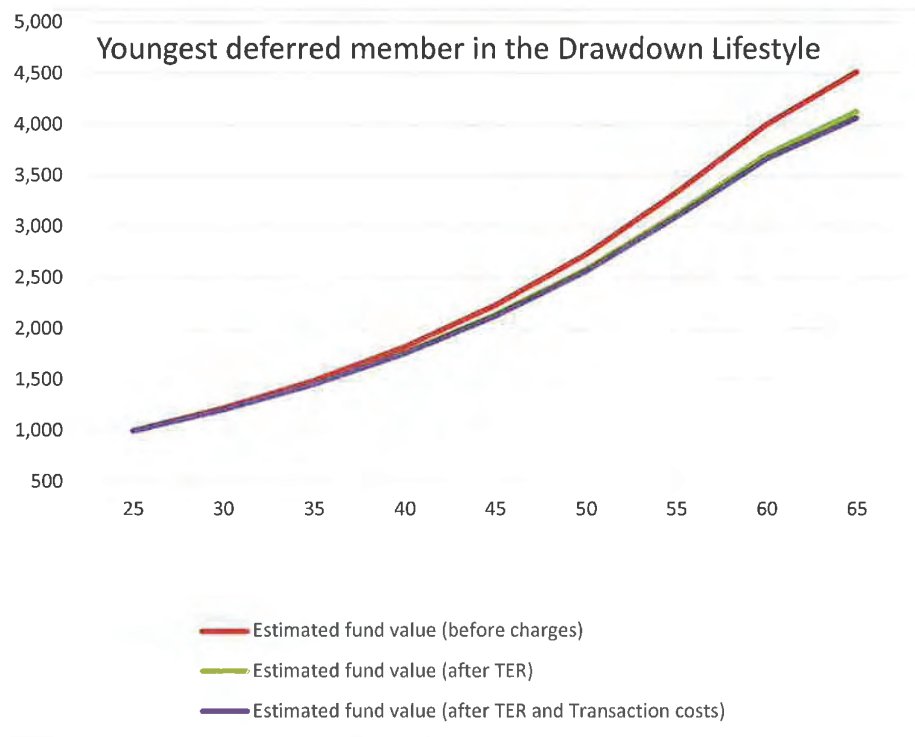
The tables below illustrate the cumulative effect of the TER over time on accumulated retirement pots for two representative members invested in the default arrangement.

For a deferred member aged 25, with 40 years to normal retirement, invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a starting fund value of £1,000 and are shown in current money terms. As the projected fund values above are dependent on investment returns as well as the level of costs and charges, we have also included some comparison illustrations below. For comparison purposes, we have demonstrated the effect on the projected fund values assuming a member is invested in a strategy with a lower return and lower charge level (Aon Managed Long Term Inflation Linked Fund) and also shown projected values if the member were invested in a higher return (higher risk profile) fund (Aon Managed Active Global Equity Fund) which has a higher expected return along with a higher level of costs and charges.

Age	Default Lifestyle (TER and TC's)			Aon Managed Long Term Inflation Linked Fund			Aon Managed Active Global Equity Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charge £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charge £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charge £
25	1,000	1,000	0	1,000	1,000	0	1,000	1,000	0
30	1,222	1,207	15	888	881	7	1,293	1,236	57
35	1,494	1,458	36	789	776	13	1,671	1,527	144
40	1,826	1,760	66	701	684	17	2,160	1,886	274
45	2,233	2,126	107	623	603	20	2,792	2,330	462
50	2,729	2,567	162	553	531	22	3,609	2,879	730
55	3,336	3,099	237	491	468	23	4,666	3,557	1,109
60	4,001	3,666	335	436	413	23	6,031	4,395	1,636
65	4,519	4,068	451	388	364	24	7,797	5,431	2,366

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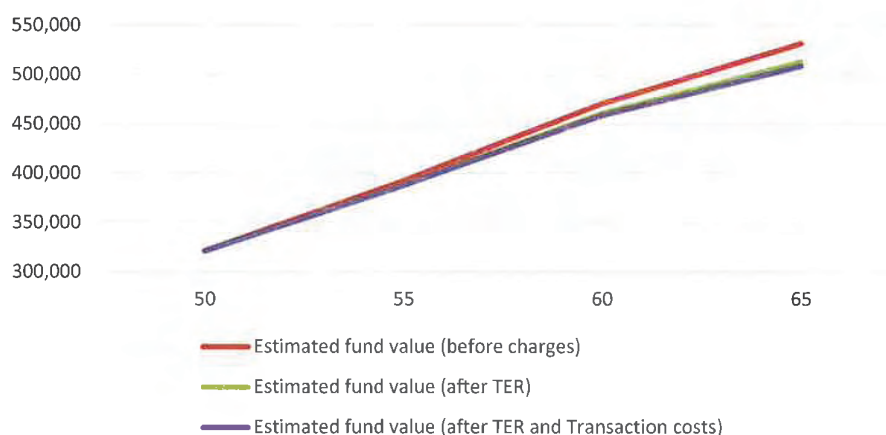
For a deferred member aged 50, invested in the Drawdown Lifestyle strategy, the estimated impact of charges on projected retirement values is shown below. Projections are based on a fund value of £321,193 at age 50 and are shown in current money terms. As the projected fund values above are dependent on investment returns as well as the level of costs and charges, we have also included some comparison illustrations below. For comparison purposes, we have demonstrated the effect on the projected fund values assuming a member is invested in a strategy with a lower return and lower charge level (Aon Managed Long Term Inflation Linked Fund) and also shown projected values if the member were invested in a higher return (higher risk profile) fund (Aon Managed Active Global Equity Fund) which has a higher expected return along with a higher level of costs and charges.

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Age	Default Lifestyle			Aon Managed Long Term Inflation Linked Fund			Aon Managed Active Global Equity Fund		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charge £
50	321,193	321,193	0	321,193	321,193	0	321,193	321,193	0
55	392,617	387,833	4,784	285,310	283,029	2,281	415,197	396,846	18,351
60	470,909	458,771	12,138	253,436	249,399	4,037	536,713	490,319	46,394
65	531,897	509,077	22,820	225,123	219,765	5,358	693,793	605,807	87,986

Average Deferred Member in the Drawdown Lifestyle



The illustrations above have been carried out in line with the statutory guidance and the following assumptions have been made:

- The assumed growth rates (gross of costs and charges) are consistent with the assumptions basis used for the annual benefit statements and are as follows:
 - Aon Managed Initial Growth Phase 6.7% p.a.
 - Aon Managed Progressive Growth Phase 5.1% p.a.
 - Aon Managed Bond Phase 2.4% p.a.
 - Aon Managed Short Term Inflation Linked 0.6% p.a.
 - Aon Managed Long Term Inflation Linked 0.1% p.a.
 - Aon Managed Liquidity Fund 1.2% p.a.
 - Aon Managed Active Global Equity 7.9% p.a.
- Retirement is assumed at the target retirement age of 65.
- Member contributions and company contributions 0.0% p.a.
- Inflation is assumed to be 2.5% p.a.
- The TERs and transaction costs for the self-select funds and the funds underlying the lifestyle strategies are as follows:

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Fund name	TER (%)	Transaction costs (%)	Total (%)
Aon Managed Initial Growth Phase	0.2300	0.0313	0.2613
Aon Managed Progressive Growth Phase	0.6400	0.3221	0.9621
Aon Managed Bond Phase	0.4000	0.2503	0.6503
Aon Managed Short Term Inflation Linked	0.1300	0.0473	0.1773
Aon Managed Long Term Inflation Linked	0.1300	0.0306	0.1606
Aon Managed Liquidity Fund	0.1600	0.0158	0.1758
Aon Managed Active Global Equity	0.8800	0.0911	0.9711

The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.

In an environment of low interest rates, returns on the inflation linked fund are negative after charges. The Trustee is aware that in the current economic environment this is the case with these types of funds and wishes to remind members of the importance of ensuring that their investments are meeting members' objectives.

The Trustee believes the charges are competitive based on our knowledge of the broader market and the assessment completed for the 2018/19 scheme year (see below). The charge illustrations are for information and transparency purposes only, and therefore the Trustee doesn't expect members to take any action in respect of the information above. Members are regularly encouraged to review that their investment choices are suitable to meet their needs.

5. Value for Members assessment

The Administration Regulations require the Trustee to make an assessment of charges and transactions costs borne by Defined Contribution Section members and the extent to which those charges and costs represent good value for money for members. The Regulations do not prescribe how trustees are to go about assessing Value for Members; it is left to the respective trustee body to develop their own assessment framework.

Based on advice from the Investment Consultants, Aon Hewitt Limited, the Trustee has established a cost-benefit analysis framework plan in order to assess whether the member borne charges deliver good Value for Members. The assessment is relevant to the current membership. The cost part of the analysis considers the costs and charges members pay. The benefit side of the analysis can be financial or non-financial in nature and considers the following:

Member communications and engagement (including support at retirement)

- The Plan provides effective communications that are accurate, clear, informative and timely.
- The use of a variety of communication media, including access to well-developed online tools and helpful information around retirement planning via the Plan's member website.
- Members can access help to support them in their decision making in the form of investment guides, plan booklets and pre-retirement support.

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Investment choices

- The Plan offers a variety of lifestyle strategies and freestyle funds covering a range of member risk profiles and asset classes. The investment funds available have been designed, following advice from the Plan's investment adviser, with the specific needs of members in mind.

Administration

- The Trustee has appointed Aon Hewitt Limited to provide administration services to the Plan and is satisfied that Aon Hewitt Limited has sufficient checks in place to monitor and report on the standard of the administration service and to ensure that when administrative errors do occur, members are not disadvantaged as a result.

Plan governance

- Plan governance covers the time spent by the Trustee to ensure the Plan is run in compliance with the law and regulation, including taking account of the interests of its members.
- The Trustee believes that good governance is key to ensuring that a framework exists and is actively in use to help deliver better member outcomes. The Trustee regularly reviews and updates its governance processes and procedures to make sure that these meet industry best practice.
- There is a separate Governance, Risk and Audit Sub-Committee (GRASC) which meets quarterly and focuses on areas of governance only.

In light of the evidence provided in the framework, the Trustee believes that the costs and charges borne by members as notified to the Trustee since 2016, represent good Value for Members relative to the quality of benefits provided.

6. Trustee's Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for the Trustee Directors to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Plan assets and other matters to enable them to exercise their functions as a Trustee properly. This requirement is underpinned by guidance in the Pensions Regulator's Code of Practice 7.

The Trustee Directors have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. All Trustee Directors receive structured initial and ongoing training. There was one new Trustee Director during the year.

The Trustee board has a range of skills and experiences including a mixture of Member Nominated and Company Nominated directors with varying backgrounds.

In addition to the skills within the Trustee board, the Trustee works closely with its appointed professional advisers throughout the year to ensure that they run the Plan and exercise their functions properly. Their professional advisers also attend Trustee and sub-committee meetings.

Training logs are maintained for all Trustee Directors by the Plan Secretary. During the year, the Trustee Directors have received training on all aspects of the Plan covering both the defined contribution and defined benefit sections. Details of the training undertaken include:

- ESG - Environmental, Social and Governance aspects of investment ensuring the Trustee remains conversant with investment related issues

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- MasterTrust training including administration presentation and an investment session to challenge and seek further advice on what is best for members and the Plan going forward
- Trustee effectiveness covering the ways Trustee Directors can and do take decisions ensuring the Trustee Directors meet the effective Governance requirements expected of them to guide their thinking when setting future training requirements and when making collective decisions
- Cyber simulation including phishing exercises ensuring the Trustee meets the requirements of knowing the risk and putting in place procedures to protect members' data. The Trustee Directors are developing a cyber risk policy at present.
- The operation of Target Date Funds and comparison with lifestyle structures

The Trustee Directors have also attended a range of external training, conferences and seminars.

The most recent evaluation of the Trustee board was carried out by KPMG which considers, amongst other things, the design, systems, security, administration, risk management, advisers, governance of the Plan and the composition and effectiveness of the board. Any actions arising from this are monitored and progressed by the Governance, Risk and Audit Sub-Committee (GRASC).

The Trustee has demonstrated its working knowledge of:

1. The trust deed and rules through consideration of the various vehicles for ongoing DC provision
2. Statement of Investment Principles through the Investment Strategy Review
3. Current policies through training on Cyber risks and security
4. The law relating to pensions and trusts through updating the risk register and training on different vehicles for DC provision and participating on a pensions trusteeship course.
5. The principles relating to the funding and investment of occupational DC schemes through the investment strategy review and training on different vehicles for DC provision. In addition, the Trustee has undertaken training on funding undertaken by fund managers.
6. Ongoing business as usual items which result in on the job training for the Trustee

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The full Trustee board meets four times per year with the sub-committees also meeting in between these meetings four times per year to progress actions and monitor and review the administration and investment performance reports, audit and approve the Trustee Report and Accounts amongst other tasks. The Trustee therefore considers it has met the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) during the Plan year.

Signed on behalf of the Trustee of the Aon Retirement Plan



Andy Kieran, Chair of Aon UK Trustee Limited

Date of signing 26 September 2019