

# MUFG BANK UK PENSION FUND

## CHAIR'S STATEMENT

YEAR ENDED 30 JUNE 2018

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### Introduction

I am pleased to present the Trustees' Statement of Governance, covering the DC Section of the Fund over the twelve-month period to 30<sup>th</sup> June 2018. In this statement, we describe the work carried out by the Trustees over the year to 30<sup>th</sup> June 2018 to ensure the Fund continues to provide you with good value and the potential for a good outcome for life after work.

Preparing this Statement is a regulatory requirement and certain disclosures must therefore be provided, including those relating to how the Trustees have ensured that financial transactions are promptly and accurately executed and, crucially, how it has assessed the extent to which the Fund provides members with good value. The Statement must also describe any change to the Fund's Default Investment Option during the year and provide information relating to the Trustees' investment principles.

Increasing complexity and speed of innovation requires the Trustees to have not only a technical knowledge of pensions but also to keep abreast of new solutions and innovations in the wider pensions market. This Statement sets out how the Trustees individually and the Board collectively has maintained the statutory levels of knowledge and understanding to govern the Fund as well as the skills to ensure the Fund remains a first-class savings vehicle.

I hope it helps you understand how the Trustees continue to work in your best interests.

### The Trustees' strategy

The Trustees' over-arching mission is to help all members achieve a good outcome for life after work. In order to ensure this is the case, the Trustees' objectives are to provide members with an appropriate range of investment options that suits their needs, enhancing members' investment understanding and avoiding overcomplicating the decision-making process.

### Governance structure and culture

Strong governance is essential to the Fund continuing to be a successful savings vehicle that provides good value for members. The Trustees recognise that this requires not only the right resources but also the right board culture, including a commitment to challenge and debate, knowledge and learning and ongoing assessment of effectiveness. Additionally, the Trustees regularly take time away from routine operations to examine emerging best practices and ways of providing better value for members.

A sub-committee of Trustees, along with the Bank representative, met with the Administration Service Manager in August 2018 to discuss efficiencies, improvements and advancements in technology which would provide better value for members. Immediate actions were taken which improved the management of members' expectations and further actions are in the pipeline to be implemented over the rest of Quarter 4 2018 and into early 2019. An update on the progress to date was provided at the 16 October 2018 Risk and Governance meeting. The progress made includes:

- Implementing a Fund specific mailbox
- Introducing a dedicated helpline for Fund members
- Considering alternative communication strategies (e.g. personalised videos)
- Closer monitoring of administrative activities and timescales

### Default Investment Option

The Annuity Lifestyle Strategy (the Default Investment Option) follows a pre-set choice of investments; starting with contributions invested in the Moderate Growth Fund, then gradually moving members' savings to the Defensive Fund once a member is within 5 years of their target retirement date. The Moderate Growth Fund has higher exposures to growth assets such as shares, reflecting the importance of seeking higher returns while retirement is a long way off and members therefore have enough time to recover from any investment falls. As retirement approaches, the member's savings are switched gradually into the Defensive Fund which is designed for those intending to purchase of an annuity at retirement. Members can elect to move into one of two alternative Lifestyle Strategies; one designed for those intending to access their retirement benefits through drawdown and the other designed for those intending to access their retirement benefits as a cash lump sum at retirement.

# MUFG BANK UK PENSION FUND

## CHAIR'S STATEMENT *(continued)*

### YEAR ENDED 30 JUNE 2018

In April 2018, the Trustees reviewed the ongoing suitability of the Annuity Lifestyle Strategy as the Default Investment Option for the Fund, in conjunction with their investment advisers. The Trustees commenced the review in July 2018, and considered the Fund's membership profile, fund sizes, contribution levels, investment and benefit withdrawal patterns, alongside the need for returns versus possible levels of risk. As a result of the review, the Trustees concluded that the Default Investment Option should

- a) be changed from the Annuity Lifestyle Strategy to the Income Drawdown Lifestyle Strategy for all members who are more than 5 years from their target retirement date
- b) remain as the Annuity Lifestyle Strategy for all members within 5 years of their target retirement date.

These changes are due to be implemented in Q1 2019, at which point further information will be communicated to members.

### Additional Default Arrangements

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Fund has identified the investment options listed in the table below as 'default arrangements' (as defined by these regulations). These have been identified as 'default arrangements' as members' contributions have been automatically directed to these funds without members having instructed the Trustees where their contributions are to be invested; this is due to historic fund removals and is further explained in the table below. The performance of these funds are monitored at least every six months, with a strategic review being carried out at least triennially since falling under the categorisation of a 'default arrangement'. Barring the Annuity Lifestyle Strategy, which was reviewed in 2018, the remaining funds are due to be strategically reviewed in 2019 and 2020.

Fund	Reason for identification as a 'default arrangement'	Date
<b>Annuity Lifestyle Strategy</b>	This option has been the DC Section's default investment option since February 2016. Also, when the Core Lifestyle and Self-Select Lifestyle Strategies were removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
<b>L&amp;G Asia Pacific (ex Japan) Developed Equity Index Fund</b>	When the Martin Currie Asia Pacific Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
<b>Baillie Gifford UK Alpha Fund</b>	When the AXA Framlington UK Select Opportunities Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
<b>BlackRock MSCI World Index</b>	When the M&G Global Leaders Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
	When the Odey Opus Fund was closed to new contributions, members who did not choose another investment option had their contributions automatically redirected to this option.	November 2017
<b>BNY Mellon Absolute Return Bond Fund</b>	When the L&G Overseas Bond Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
	When the Defensive Fund was removed as a self-select option, members who did not choose another investment option had their contributions automatically redirected to this option.	November 2017
<b>L&amp;G Sterling Liquidity Fund</b>	When the L&G Cash Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	February 2016
<b>Moderate Growth Fund</b>	When the Standard Life Global Absolute Return Strategies (GARS) Fund was removed, members who did not choose another investment option had their contributions automatically redirected to this option.	November 2017

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## CHAIR'S STATEMENT *(continued)*

YEAR ENDED 30 JUNE 2018

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### Core Financial Transactions

A prompt and accurate administration service is essential to the Trustees' duty to pay the right benefits to the right members at the right time. The Trustees believe that providing members' with a positive ongoing experience of the Fund's services will increase their confidence in pensions and their propensity to save more in order to achieve good outcomes for life after work. Considerable time and resource has therefore been allocated over the year to ensure the Fund's data is up to date and accurate, contribution payments and other core financial transactions are reconciled and that member queries are addressed promptly.

Over the reporting year a contribution issue was identified. In accordance with Auto-enrolment (AE) minimum pension requirements the Bank wrote to all members that had reduced their core contributions to under 6% (minimum 3%) through Myflex and confirmed that contributions would increase to the AE minimum of 6%, unless individuals elect for a lower contribution amount.

95 members either confirmed they wished to increase their contribution or did not return the form in response to the letter, however whilst contributions were deducted at the 6% rate, the contributions paid to the Fund administrator continued at the members' previously elected rates of between 3% and 5.5%.

Underpayments occurred in the months of April, May and June and were identified in September. Work is ongoing to correct the underpayments and put members back in the position that they would have been in had the correct contribution been invested for members. MUFG Bank, Ltd has agreed to pay any shortfall amounts including any investment loss suffered.

As the contribution issue is a breach of the Pensions Act and the correction has taken over 90 days to remedy the issue, the Trustees agreed to class it as an amber breach and took the decision to report it to the Regulator. At the time of preparing this statement, the Trustees were in the process of requesting additional information from the Bank to support the action they were taking to minimise the risk of this error occurring again in the future, following which they would proceed with submitting the report. The Bank is currently undertaking a full audit of the internal HR42 system and has also contracted with a new third party system provider which will be in place from 1 July 2019.

In addition, the Trustees were recently made aware of a further contribution issue following commencement of the HR42 audit for which at the time of preparing this statement they had not been provided with full details of, in relation to Permanent Health Insurance (PHI) members. The Trustees had been informed that all PHI member contributions could have been underpaid or overpaid for a number of years. Furthermore, there were some inconsistencies of salary (notional salary and benefit salary) that had been used to deduct the contributions that had been paid. The Bank is analysing the data and has confirmed the analysis will be shared in due course at which point the Trustees will consider how to class the breach and whether it should be reported to the Regulator.

The Trustees have agreed to keep the issues as standing items on their meeting agendas until they are satisfied that the issues have been resolved and more robust controls are in place. Following this they will ensure that a periodic review of the payment of member contributions is carried out and this will be reflected in their governance documentation.

The Trustees consider detailed statistics of the Fund administrator's performance against the targets that are set by the Trustees at the bi-annual Risk and Governance meetings. This gives the Trustees insight into member activity, completion timescales for administrative functions and the reliability of the Fund's administration controls. The Trustees also monitor the accuracy of the Fund's common data periodically.

Finally, the Trustees have received the Fund administrator's assurance report on its internal controls for the period 1st January 2017 to 31<sup>st</sup> December 2017 and noted the Independent Service Auditor's opinion that, in all material respects, its controls were suitably designed and those tested operated effectively.

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### YEAR ENDED 30 JUNE 2018

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#### Charges and Transaction Costs

##### Charges

The charges borne by members consist of investment management and Phoenix's platform fees only, which are deducted directly through the unit prices of the funds they invest in – these combined charges are known as 'Total Expense Ratios'. All other costs associated with running the Fund, including administration, advisory, legal, benefit modelling tools and other member communications resources are paid for by the Fund.

As can be seen in Table 1, as at 30 June 2018, the DC Section's fund range comprised funds with charges (Total Expense Ratios) ranging from 0.13% per year to 1.17% per year. The Fund also complied with regulations on charge controls over the year to 30 June 2018; Table 1 shows that the Fund's Default Investment Option (the Annuity Lifestyle Strategy, which consists of the Moderate Growth and Defensive funds) had a combined charge below the charge cap of 0.75% a year.

These charges exclude the costs associated with trades in and out of a fund as well as the costs of trading a fund's underlying securities, including commissions and stamp duty, which are collectively referred to in this Statement as 'transaction costs'.

##### Transaction Costs

Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding calculations and disclosures of transaction costs which comply with regulations. Due to the way in which transaction costs are calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity. The Trustees requested this information from Phoenix, as their platform provider. In turn, Phoenix worked with the various underlying investment firms to collate the required data on transaction costs. The transaction costs reported by Phoenix for each fund is shown in Table 1.

Phoenix was *unable to obtain all of the required elements* of transaction costs that need to be disclosed in this Statement from each of the underlying investment firms, with the exception of Artemis Investment Management. Hence, besides from the Artemis Income Fund, the majority of the figures disclosed in Table 1 only represent partial transaction costs. Furthermore, Phoenix *could not get data for every fund* in the DC Section from the underlying investment firms; the data was either not in the format required by Phoenix, or unavailable, by the required date for publication of this statement. This is clearly marked in Table 1 as there are no transaction costs displayed for these funds.

The limitations in the data obtained this year are not unexpected given the recent introduction of the requirements to disclose them. Nevertheless, the Trustees, through their platform provider, Phoenix, are working with the underlying investment firms to improve the amount and quality of the data received for the next Statement. Phoenix expects improved disclosures as the industry becomes more accustomed to the disclosure requirements over the intervening months before next year's Statement.

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**CHAIR'S STATEMENT** *(continued)*

**YEAR ENDED 30 JUNE 2018**

**Table 1: Costs and Charges**

Fund	Charges - Total Expense Ratios (TER)	Transaction Costs
	(% p.a.)	(%)
<b>Risk-Profiled Funds</b>		
High Growth Fund	0.731	0.041
Moderate Growth Fund	0.689	0.065
Cautious Growth Fund	0.581	0.033
Defensive Fund	0.152	0.008
<b>Self -Select / Asset Class Funds</b>		
<b>UK Equities</b>		
BlackRock UK Equity (ex NLD)	0.13	n/a*
Artemis Income Fund	0.77	0.138
Baillie Gifford UK Equity Alpha	0.6	0.022
BlackRock UK Smaller Companies	0.85	n/a*
<b>US Equities</b>		
BlackRock US Equity Index	0.127	0.018
<b>Europe (ex UK) Equities</b>		
BlackRock European Equity Index	0.135	0.045
Lazard European Alpha	0.91	n/a*
<b>Japan Equities</b>		
BlackRock Japan Equity Index	0.131	-0.137
<b>Asia Pacific (ex Japan) Equities</b>		
Stewart Investors Asia Pacific Leaders	0.88	0.084
L&G Asia Pacific (ex Japan) Equity	0.155	-0.021
<b>India Equities</b>		
Jupiter India Fund	1.17	n/a*
<b>China Equities</b>		
Jupiter China Fund	1.14	n/a*
<b>Ethical Fund</b>		
Jupiter Ecology	0.86	n/a*
<b>Commodities</b>		
JP Morgan Natural Resources	0.935	n/a*
BlackRock Gold & General Fund	0.95	n/a*
<b>Absolute Return</b>		
Baillie Gifford Diversified Growth	0.78	0.518
Invesco Perpetual Global Targeted Returns	0.95	n/a*
<b>Global Equities</b>		
MFS Meridian Global Equity	0.73	0.048
Acadian Global Managed Volatility	0.33	n/a*
BlackRock Aquila MSCI World Index	0.129	-0.001
CF Odey Opus Fund	1.155	n/a*

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## CHAIR'S STATEMENT *(continued)*

YEAR ENDED 30 JUNE 2018

Fund	Charges - Total Expense Ratios (TER)	Transaction Costs
	(% p.a.)	(%)
BlackRock World ex UK Equity Index	0.13	-0.009
Schroder QEP Global Blend	0.75	n/a*
American Century Concentrated Global Equity	0.68	n/a*
<b>Emerging Markets Equity</b>		
Lazard Emerging Markets	0.825	n/a*
BlackRock Emerging Markets Index	0.38	n/a*
<b>Property</b>		
Threadneedle Property Fund	0.82	-0.295
<b>Bonds</b>		
M&G Corporate Bond Fund	0.73	-0.018
BlackRock Over 15 Year UK Gilt Index	0.124	-0.001
BlackRock Over 5 Year UK IL Gilt Index	0.124	0.015
BNY Mellon Absolute Return Bond	0.67	n/a*
<b>Cash</b>		
L&G Liquidity	0.143	0.016

Source: Phoenix and the underlying investment firms

These figures cover the period 1 July 2017 to 30 June 2018.

\*Data was not received from the underlying investment firms (either entirely or in the format required by Phoenix) by the required date for publication of this statement.

The Trustees fully support transparency of charges and costs for members. However, a key consideration for members is the performance produced net of combined charges and costs. Moreover, a cheaper fund does not necessarily deliver the best value for money.

To illustrate the impact of charges and costs on a typical member's pension pot, we have provided examples below based on the Default Investment Option and two other funds with the highest and lowest charges as well as expected returns.

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We have shown example illustrations of what money invested (including existing and future contributions, as well as investment returns) in each of these funds could be worth in 1, 3, 5, 10, 15, 20, 25, 30, 35 and 40 years' time, taking inflation, investment costs and charges into account. These figures are shown in today's money, meaning they show what those pots could buy today. For example, the table shows that, in 40 years, an example pension pot invested in the Default Investment Option could buy what £239,638 could buy today. The figures shown below are just illustrations and are not a guarantee of future values.

**Table 2: What could a pension pot be worth<sup>1</sup> in the future after charges and costs?**

		Fund Choice					
Yrs	Cumulative Contributions	Annuity Lifestyle Strategy – Default Investment Option		Jupiter India Fund – Highest Charge and Expected Return		BlackRock +15 Year UK Gilt Fund – Lowest Charge and Expected Return	
		Before Charges and Costs	After all charges and costs deducted	Before Charges and Costs	After all charges and costs deducted	Before Charges and Costs	After all charges and costs deducted
1	3,600	3,600	3,570	3,600	3,538	3,600	3,596
3	10,800	11,030	10,844	11,188	10,803	10,692	10,666
5	18,000	18,776	18,301	19,324	18,327	17,644	17,578
10	38,000	41,706	39,811	44,478	40,371	36,383	36,145
15	58,000	67,162	62,701	74,425	64,434	54,204	53,693
20	83,000	100,636	92,145	115,446	95,793	76,052	75,160
25	108,000	137,796	123,479	164,284	130,025	96,830	95,449
30	138,000	184,264	161,908	227,797	172,485	121,490	119,507
35	168,000	235,849	202,805	303,413	218,836	144,942	142,245
40	198,000	282,034	239,638	393,437	269,434	167,244	163,734

#### Notes

1. Values shown are estimated projections and are not guarantees.
2. The starting pot size is assumed to be £0.
3. Inflation and salary increases are assumed to be 2.5% each year.
4. Contributions are assumed to be 9% for members aged 18-29, 10% for members aged 30-39, 12.5% for members aged 40-49 and 15% for members aged 50+ each year, based upon a starting salary of £40,000. These contribution rates are based upon benefits that are currently under consultation and may change in future. Starting pot size and starting salary are assumed to be representative of members who start investing in their twenties. Contributions are assumed to have been made at the end of the year and assumed to increase in line with contribution rate changes and salary increases (assumed to be 2.5% a year).
5. The projected growth rates before charges and costs are as follows:  
 Annuity Lifestyle Strategy: 0% to 2.1% per year above inflation, with charges between 0.21% and 0.69% a year and costs between 0.02% and 0.15%p.a., for prudence.  
 Jupiter India Fund: 3.6% per year above inflation, with charges of 1.17% a year and costs of 0.55%p.a. (cost data was not disclosed this year by Jupiter, so this figure is a prudent assumption accounting for the higher expected costs of trading in shares in the Indian market).  
 BlackRock +15Yr UK Gilt Index Fund: 1.0% below inflation, with charges of 0.12% a year and costs of 0%p.a..

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## CHAIR'S STATEMENT *(continued)*

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### Value for members

The Trustees regularly examine ways of providing better value for members. Underpinning the board's assessments of value is the belief that value is about using the resources at its disposal effectively to help members achieve a good outcome for life after work. Also, while some measures of value should be scrutinized carefully over the short-term (for example, the performance of the Fund's administrator), the Trustees believe that others, such as the suitability and performance of investment funds, span several years. Additionally, some components of member value can be assessed quantitatively, but those that impact on members' experience of the Fund and its services often require a more qualitative assessment.

The Trustees have assessed the value for money of the member-borne deductions within the Fund, in counsel with their advisers. This assessment considered the funds offered to members in terms of:

- Charges (as detailed in Table 1)
- Net of charges performance relative to benchmarks and targets/objectives
- Fund range available to members
- Research views from their investment adviser on the investment managers and platform provider

The Trustees concluded that the Fund's overall range of investment options represent good value for money in comparison to the member-borne charges for those options. The reasons underpinning this conclusion include:

- Charges for the default investment arrangement (as well as self-select lifestyle strategies) are below the charge cap of 0.75% per annum;
- The fees for the majority of the funds compare favourably to the fees typical for pension scheme members;
- Long term performance figures are within expectations for the majority of the funds, and the majority of underlying funds are researched and highly regarded by the Trustees' investment advisor. It should be noted that some of the funds are new and do not have meaningfully long performance records in the DC Section due to their relatively recent inclusion in the fund range.

As a result, we believe that the overall Fund delivers good value for money in respect of member-borne deductions. Furthermore, additional services such as Fund administration, trustee governance, adviser fees and additional communications that are paid for by the Trustees, provide additional good value for members at a Fund-wide level.

Following the value for money assessment carried out last year, the Trustees negotiated a reduction for the M&G Corporate Bond Fund (from 0.63% p.a. to 0.58% p.a.).

### Knowledge, understanding and resources

The Trustees maintain a Training Plan which is designed to align closely with its longer-term strategy and business plans and is reviewed on an annual basis. Further details of how the Trustees have adhered to the Regulator's training standards is provided in Appendix 3 for reference.

In the context of governing a pension fund, 'skills' relate to knowledge of pensions and regulatory requirements, as well as the ability to identify opportunities, manage risks, challenge professional advice and understand the evolving needs of members. The Trustees believe that the best way to embed these skills is to have a Board that brings together individuals with different perspectives, experiences and beliefs. A more diverse Board enhances dialogue and reduces the risk of 'groupthink', leading to higher quality decision-making and monitoring.

Reflecting this belief, the Board comprises individuals with diverse and complementary professional skills including legal, accounting and investment. The age group of the Board spans over three decades with its youngest members aged under forty and its oldest aged over seventy. The Chair of Trustees is a retired MUFG Bank, Ltd Chief Financial Officer. He is a member of the Fund and has been a Trustee for the Fund and the other MUFG Bank, Ltd pension arrangements for over 30 years. A detailed



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#### YEAR ENDED 30 JUNE 2018

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description of the duties the Chair of Trustees carries out has been produced and will be reviewed and updated periodically.

During the year, the Trustees discussed their training needs as part of their meetings, having regard to the statutory requirements to have knowledge and understanding of pensions law and to be conversant with the Fund's trust deed and rules, Statement of Investment Principles and other documents recording the Trustees' policies. The Trustees undertook a number of activities that involved Trustees giving detailed consideration to various aspects of the Fund. Examples include:

- As part of the requirement under the DC Code of Conduct, the Trustees reviewed the performance of each investment option against the relevant aims and objectives and take into account relevant industry benchmarks. The Trustees received a detailed session on the background of the current funds and the options available to them. They decided to make changes to the fund options available to members during the meeting on 25 July 2018 meaning they required their DC Consultant to outline the process and address the impacts for members.
- At various meetings throughout the year (e.g. 27 September 2017, 12 December 2017 and 20 February 2018), the Trustees have considered updates from their professional advisors on forthcoming changes to pension laws and their impact on the Fund.

The Trustees periodically conduct assessments of its effectiveness. These assessments obtain candid feedback on an anonymous basis from each Trustee as well as our external advisors on the Board's diversity, inclusiveness culture, operating framework and performance generally. The results are collated and reported by Mercer Limited and discussed openly at Board meetings. The assessment questions are similarly prepared by Mercer Limited with each Trustee invited to provide input prior to them being finalised. The last assessment was carried out in September 2018. This confirmed that a majority of the Trustees felt that they effectively governed each of the following areas of the Fund to a moderate extent if not to a great extent:

- |                             |                          |
|-----------------------------|--------------------------|
| • Headline opinion          | • Board Chair            |
| • Trustee Board Meetings    | • Decision Making        |
| • Trustee Board Structure   | • Relationships          |
| • Resourcing                | • Appointments           |
| • Your Contributions        | • Induction and Training |
| • Contribution to the Board | • Governance & Risk      |

In addition, the Trustees, from time to time, conduct a Trustee Knowledge and Understanding Analysis to identify training needs. The most recent analysis was carried out in September 2018 which allowed the Trustees to identify areas for development and derive an effective 2019 training plan.

MUFG Bank, Ltd's extensive pool of employees with significant financial, legal, investment and general business expertise provides the Trustees with a wide range of quality candidates to select from when it seeks new Trustees. Additionally, the Bank's in-house Human Resources Team provides the Board with considerable operational support, with at least one of its members attending each meeting where commitments allow.

Finally, the Trustees maintain a comprehensive induction training programme for new Trustees. This provides an overview of important pensions law and regulatory requirements as well as the Trustees' strategy, policies, and current activities. Its aim is to help new Trustees participate quickly in informed decision-making. During the year the two new Trustees participated in the induction programme with a further new Trustee participating in the induction programme after 30<sup>th</sup> June 2018. The three new Trustees attended a course to cover the Regulator's toolkit on 2 November 2018.

Signature: *M Pritchard*

Name: M Pritchard

Position: Chair of Trustees

Date: 23 January 2019

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**CHAIR'S STATEMENT** *(continued)*

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**APPENDIX 1 DEFAULT INVESTMENT OPTION**

The Statement of Investment Principles is attached to the Annual Report and Financial Statements. They include a detailed description of the DC Section's Default Investment Option.

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### CHAIR'S STATEMENT *(continued)*

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#### APPENDIX 2: CORE FINANCIAL TRANSACTIONS

The Trustees are required to explain to you how they ensure that core financial transactions are processed promptly and accurately. Core financial transactions include:

- Investment of contributions paid to the Fund;
- Transfer of members' assets into and out of the Fund;
- Transfers of members' assets between different investment options available in the Fund; and
- Payments from the Fund to or in respect of members.

The Schedule of Contributions sets out the statutory timescales for the Company to remit monthly contributions to the Fund. Contributions are processed via an automated straight through process to provide both speed and accuracy.

The Trustees operate an outsourced operational model, with the Fund's administration and management of its Fund bank account delegated to Mercer Limited. The Trustees have agreed timescales with its administrators for the processing of all member-related services, including core financial functions relating to contribution handling, quoting benefits and paying benefits. These timescales are well within any applicable statutory timescale.

Task	Service Level Agreement
Transfer out settlement	15 working days
Transfer in settlement	10 working days
Retirement Quotation	10 working days
Retirement Settlement	13 working days
Death claim – issue documentation	2 working days
Investment switch- post or email	1 working day

Mercer Limited records all member transactions and benefit processing activities in a work management system which assigns the relevant timescale to the task.

Mercer Limited's administration reports disclose the providers' performance against these agreed timescales and are presented at Trustee meetings. The Trustees require additional disclosures in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales were breached and the proposed remedial measures.

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The Trustees also monitor the accuracy of the Fund's common data quarterly. A summary report is received from the Fund administrator and was most recently presented at the 23 October 2018 meeting.

As a wider review of the Fund administrator in general, the Trustees receive the Fund administrator's assurance report on internal controls. For the Scheme year, the report received was for the period 1 January 2017 to 31 December 2017 and noted the Independent Service Auditor's opinion that Mercer Limited's description of services was fairly presented and that controls were designed, implemented and operated effectively throughout the period.

Separately the Trustees arrange for spot-checks of member data and benefit calculations to ensure that core financial transactions and benefit payments are accurate.

The table below sets out the Fund's core financial transactions and the controls that existed during the year to ensure accuracy and promptness. Overall, the Trustees are satisfied that the administrator's controls to process transactions promptly and accurately functioned well during the year. Additionally, the auditor conducted checks in relation to financial transactions during the year to present high or elevated risks.

Core financial transaction	Key internal control
<b>Payment of monthly contributions</b>	<p><b>Promptness</b> Schedule of Contribution requires the Bank to pay member and Bank contributions by the 22<sup>nd</sup> of month following that to which they relate.</p> <p>Administrator must report all breaches of Payment Schedule within five working days of the breach being identified.</p> <p>Data on any events that breached the target timescale, including the amount of time it took to complete.</p> <p><b>Accuracy</b> Auditor asked to spot-check contribution payments between administrator and Bank systems.</p> <p>Members are encouraged to use Mercer OneView to check that the contributions shown on their records and benefit statements reconcile with pay slips.</p>
<b>Investment of monthly contributions following receipt by Trustee</b>	<p><b>Promptness</b> Administrator's agreed timescale for investing contributions is five days from date of receipt of contributions.</p> <p>Data on any events that breached the target timescale, including the amount of time it took to complete.</p> <p>Contributions are processed via an automated straight through process to ensure speed.</p> <p><b>Accuracy</b> Monthly contribution cycle includes a reconciliation of transaction statements from fund managers with contribution receipts from Bank.</p> <p>Auditor asked to spot-check contribution payments between administrator and Bank systems.</p>

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**CHAIR'S STATEMENT** *(continued)*

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<b>Investment switches requested by members</b>	<b>Promptness</b> Administrator's SLA for switching investments is 1 day from date of request.  Data on any events that breached the target timescale, including the amount of time it took to complete.
	<b>Accuracy</b> Administrator's SLA for switching investments is 1 day from date of request.  All switches are reconciled with manager transaction statements.  All members are notified when a switch is completed.
<b>Payment of benefits to members</b>	<b>Promptness</b> Cash flow preparation includes identification of forthcoming benefit payments  SLAs for core benefit transactions (retirements, deaths and transfers) help ensure that member wishes are known well in advance of benefit payment date.  Annual appraisal of common data helps ensure that member data is accurate, reducing the likelihood of delay from data gaps.  Clear authorisations exist for the payment of transactions, balancing the need for promptness on the one hand with senior oversight on the other.  Data on any events that breached the target timescale, including the amount of time it took to complete.
	<b>Accuracy</b> Administrator operates peer review system for all benefit calculations.  Data accuracy is subject to regular evaluation and updating.

## MUFG BANK UK PENSION FUND

### CHAIR'S STATEMENT *(continued)*

YEAR ENDED 30 JUNE 2018

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#### APPENDIX 3: TRUSTEE KNOWLEDGE AND UNDERSTANDING (TKU)

The Pensions Act 2004 requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustees to exercise the function in question.

Trustees must also be conversant with the Fund's own documentation. These are described in legislation as the Trust Deed and Rules and the Statement of Investment Principles. Trustees must also be conversant with any other document recording current policy relating to the administration of the Fund generally.

The table below shows how these duties have been fulfilled and how the combined knowledge and understanding, together with the advice which is available to the Trustees, enables them to properly exercise their duties and responsibilities. Hence, over the period under review, the Trustees, with the support of their advisers, have met the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for knowledge and understanding).

Requirement	How we met it
<b>Trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets</b>	<ul style="list-style-type: none"><li>Trustees undertake a periodic evaluation of training requirements, which includes specific consideration of whether any further training is required in respect of these statutory areas. The last evaluation was carried out in September 2018 and was discussed in further detail during the meeting on 23 October 2018.</li><li>The Trustees have worked through the trustee knowledge and understanding requirements set by The Pensions Regulator ("TPR") and all Trustees have completed TPR's Trustee Toolkit. Furthermore, new trustees are required to complete TPR's Trustee Toolkit shortly after formal appointment.</li></ul>
<b>Trustees must be conversant with the Scheme's own documentation</b>	<ul style="list-style-type: none"><li>The Trustees are currently undergoing a review of the Fund's Trust Deed and Rules and will be engaging their legal advisers to provide training on the Trustees' discretionary powers and the Rules towards the end of the exercise. It is anticipated that the training will be provided during Q2 2019.</li><li>Trustees maintain a record of key decisions that references the relevant sections of these documents, where applicable</li></ul>
<b>Knowledge and resources generally</b>	<ul style="list-style-type: none"><li>The Trustee Board comprises individuals with diverse professional skills and experiences, reflecting the varied nature of the challenges that Trustees face.</li><li>The Trustees maintain an ongoing programme of Trustee training which includes training delivered as part of Trustees' meetings as well as structured training events, like their half-day training course every year. Such training is facilitated by their external advisers.</li><li>The Trustees maintain a training log that sets out individual and board based training activity.</li><li>The Trustees review their training programme at least annually, taking into account the balance and variety of expertise amongst the Trustees. The training programme was reviewed during year at the 25 October 2017 meeting and more recently at the 23 October 2018 meeting.</li></ul>

## MUFG BANK UK PENSION FUND

### CHAIR'S STATEMENT *(continued)*

#### YEAR ENDED 30 JUNE 2018

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	<ul style="list-style-type: none"><li>• The Trustees' pension advisors attend at the relevant adviser meeting (e.g. Actuarial, DB Investment, DC Investment). Advisers are invited to attend more often if required.</li><li>• The Trustees' investment advisor reports biannually on the performance of the Fund's investments and on their views regarding the Scheme's investments. Reports and views on the DC investment performance were given at the meeting on 27 September 2017 and 18 April 2018.</li><li>• The Trustees regularly receive email bulletins and updates from its advisers on the latest developments affecting defined contribution pension schemes.</li><li>• The Trustees have paid due consideration to TPR's DC Code of Practice No.13 and undertaken bi-annual assessments against the revised version when fulfilling their governance obligations over the period under review. During the year the Fund's DC Code of Practice assessment was reviewed at both the 25 October 2017 and 20 February 2018 meetings. It was more recently reviewed at the meeting held on 23 October 2018.</li></ul>
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