

Chair's Statement

Rexel UK Pension Scheme

Annual statement regarding governance

The Trustee of the Rexel UK Pension Scheme (the 'Scheme') presents its annual Chair's Statement on governance (the 'Statement') as required under legislation. The Statement covers the period 6 April 2018 to 5 April 2019.

The default investment option

In accordance with the Administration Regulations, the Trustee is required to append the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Scheme. A copy of the Scheme's SIP is attached to this Statement.

The Trustee undertook a formal triennial review of the default investment strategy in 2017 (it was introduced in 2015 after advice from the Trustee's investment adviser) to ensure that the strategy continued to remain appropriate for the membership and continued to have a suitable "at retirement" target.

During the current year there were no changes made to the Lifestyle profile and at retirement objective but the decision was made to switch the Aberdeen Standard GARS Fund to the Aberdeen Standard DGF. This switch was made following advice from the Trustee's investment adviser, Barnett Waddingham and followed concerns regarding the ability of the Aberdeen Standard GARS fund to meet its investment objectives and hence the desired returns under the default strategy.

The default investment strategy for the Scheme is the Rexel Growth Fund (with Lifestyling Profile). Up to 10 years from retirement the member's assets are invested in the Rexel Growth Fund that invests broadly 50% in the L&G Rexel Consensus Fund and 50% in the Aberdeen Standard GARS (the Aberdeen Standard DGF with effect from May 2019 albeit the decision to switch was made during the period covered by this Statement). When a member is 10 years from retirement the allocation to the L&G Rexel Consensus Fund and the Aberdeen Standard DGF are incrementally switched into the L&G Cash Fund over time such that at a member's retirement age the assets are held 25% in the Aberdeen Standard DGF and 75% in the L&G Cash Fund.

The next triennial review is due to be undertaken in 2020. However, performance of the default fund and investment options will continue to be regularly monitored.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

This includes:

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

The process controls for the above are set out in the Assurance Report on Internal Controls which provides an independent assessment of the financial control processes employed by XPS. With regards to each of the above, the following controls are in place:

Contributions:

The deduction and payment of contributions across to the Trustee is processed by the Company. The Company ensures that contributions are remitted each month in a prompt and accurate manner and within legislative deadlines and this is monitored by XPS.

Contributions deducted are reconciled against the monthly client schedule, with any anomalies investigated as a matter of urgency. The final schedule sent to the investment managers is reviewed by a senior member of staff and all funds are processed via Straight Through Processing (STP) to avoid manual intervention / transcription. The electronic instructions are monitored by the administrator and a manager until the investment schedule is returned (again via STP) at which point system units are reconciled against the investment manager units to ensure they balance, with any discrepancies flagged, investigated with the employer and resolved as a matter of urgency. XPS operate a 5 working day turnaround from reconciled receipt of contributions by the Trustee to those funds being sent to the investment manager.

Switches of member assets between funds:

Members can switch their contributions to one or more of the funds available under the Scheme by writing to the Scheme's administrator or by telephoning the administrator.

Lifestyle switches are activated by the Defined Contribution (DC) administration system which is triggered in accordance with the life styling matrix. The relevant checklist is completed by an administrator and signed off by a senior member of staff. Switching instructions are then sent to the investment managers via STP and, as with monthly contributions, are tracked until the switched unit allocations are returned via STP. Switched unit holdings between the investment manager and the system are then reconciled, with any discrepancies investigated and resolved as a matter of urgency.

Members that wish to change their contributions are required to contact the Company to make the required change.

Transfers Out and payments made to members:

Benefit calculations and payment requisitions are either generated automatically by the system (as programmed), or manually by reference to the rules. The workflows ensure that each process is completed by an administrator and independently checked by an authorised person. The process can only be authorised once all of the required steps have been completed, so that each case undergoes independent checking. Figures and details are only issued once the workflow has been fully authorised. For payments, transactions are created in the banking software; before release the transactions undergo a minimum 3 stage checking process (one stage of which is performed by an independent cashiering team unconnected with the Administration team). Throughout the process the authorising supervisor will also use a pre-defined checklist to ensure that all stages have been completed in a timely manner and that all information, figures and any payments made are accurate and complete.

The above controls and reconciliations take place on a monthly basis, with any necessary actions arising from discrepancies taken within the same month. Each quarter, at full board Trustee meetings, information and reports detailing the financial transactions over the quarter are produced by XPS and are reviewed by the Trustee.

In addition to the monthly and quarterly reviews, the control processes, and control environment at XPS are independently audited by BDO against the stated AAF controls. The most recent annual assessment was undertaken in November 2018 and did not highlight any areas of concern.

For the period covered by this report all contributions were paid over by the employer to the Trustee within the statutory timeframe. XPS invested all but one month within a 5 day turnaround, with the exception of December 2018 when contributions were sent to the investment manager 9 days beyond the target date. This was due to a discrepancy between the contribution schedule received from the Company and the funds paid over. Investigation of the discrepancy was instigated immediately, but due to the Christmas holiday period was not fully resolved until early in the new year leading to the stated delay. XPS subsequently discussed the delay and contributions investment process with the Trustee and it was decided, so as not to delay investment, that XPS would pay over future contributions as per the Company schedule received (usually sent approximately 10 days before the funds are paid over). Any subsequent discrepancies between the schedule and the funds received would then be investigated with any rectification of unit holdings funded via the Trustee expense account.

To supplement the financial control processes within XPS, the Pensions Manager at Rexel UK Ltd in conjunction with XPS is refining the process and the sharing of information between the Company and XPS as the Scheme's administrators, to increase the synergy and control between the Rexel finance and payroll functions and XPS Administration.

The Scheme's risk register details the risks to the members and it is monitored at each Trustee meeting and is reviewed on at least an annual basis.

Charges and transaction costs

As required by the Administration Regulations, the Trustee has set out below its report on the charges and transaction costs for the investments used in the default arrangements and its assessment on the extent to which the charges and costs represent value for members.

The Management charges – These are the charges taken by the fund manager to cover their costs and expenses. They are deducted from the fund every day before unit prices are calculated.

Additionally members pay an administration fee of 0.30% p.a. of the value of their Retirement Account as a contribution to the cost of the Scheme administration. This amount is calculated and deducted on a quarterly basis.

Transaction costs are the total of the 'Buying and Selling' costs and 'Lending and Borrowing' costs as described below.

In accordance with FCA & DWP regulations, Governance bodies of workplace pension schemes must perform a value for money assessment for their scheme which includes looking at the costs involved in managing pension funds. The table produced should also show the transaction costs, where available, for the funds used within the default investment strategy and for the funds available for members to self-select, and is provided to assist with value for member assessments.

The Trustee will liaise with the fund managers to improve the availability and frequency of transaction cost reporting. Transaction costs have been added to the quarterly Trustee meeting investment review agenda and quarterly reporting has been requested in future to support monitoring, including the provision of the blended fund transaction costs.

The FCA has prescribed the 'slippage cost' methodology for calculating transaction costs. The slippage cost methodology calculates the transaction cost of buying or selling an investment as the difference between the price at which an asset is valued immediately before an order is placed into the market and the price at which it is actually traded.

Fund Name	Annual Management Charge (AMC)	Annual Administration fee	Annual Transaction Costs
Rexel Growth Fund (with Lifestyling Profile)			
LGIM Cash Fund	0.125%	0.30%	0.0%
LGIM Rexel Consensus Index Fund	0.18%	0.30%	Not available (blended fund)
Aberdeen Standard GARS Fund	0.70%	0.30%	0.002013%
Aberdeen Standard DGF*	0.30%**	0.30%	0.001273%
Self-select funds			
LGIM World (ex-UK) Equity Index Fund	0.22%	0.30%	-0.01%
LGIM UK Equity Index Fund	0.10%	0.30%	-0.01%
LGIM Over 5-year index-Linked Gilts Fund	0.10%	0.30%	0.03%
LGIM Pre-Retirement Fund	0.15%	0.30%	0.02%

* Aberdeen Standard DGF replaced Aberdeen Standard Life GARS Fund with effect from May 2019.

** Aberdeen Standard DGF fees are increasing over time:

Year 1 AMC 0.30% p.a. (Total Expenses Ratio (TER) 0.53% p.a.)
 Year 2 AMC 0.40% p.a. (TER 0.63% p.a.)
 Thereafter reverts to the standard AMC of 0.50% p.a. (TER 0.73% p.a.)

Value for Members

The Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for money.

The Trustee appointed a specialist defined contribution consultancy, Punter Southall Aspire, to undertake a value for money assessment. This review included a limited assessment of the legacy AVCs arrangements, reflecting the small value of the AVCs in relation to the Scheme's overall DC assets.

The Trustee concluded that the Scheme's overall benefits and options represent value for members. The reasons underpinning this conclusion include:

- The high quality administration support provided to members.
- The investment governance carried out by the Trustee provides access to investments the Trustee believes are appropriate for members, and action is taken when necessary, as evidenced following the changes made to the Scheme's default strategy, to support the delivery of value for members.
- The AMC on funds have been assessed by our advisors as reasonable for this type of arrangement. However, the additional 0.30% p.a. administration charge means that the overall member charges are above average for this type of scheme. The charge cap for this type of scheme is 0.75% p.a. of funds under management.
- The performance of the Scheme's funds over the 3 month, 1 year and 3 years to 5 April 2018 have been within the parameters outlined in the Fund's objectives.

Below, prepared after consideration of the statutory guidance, is a detailed illustration of the likely impact of charges for a member invested for short, medium and long term in the default fund applicable during the Scheme year, compared to the charge cap requirements of a qualifying workplace pension scheme. This is based on investing within the growth fund of the default strategy – as over 95% of members are invested within the default strategy, the Trustee has not prepared further illustrations in respect of the funds available for members to self-select.

	Total costs incurred p.a.	Short term (5 years)	Medium term (15 years)	Long term (25 years)
The Rexel Growth Fund (with Lifestyling Profile)				
No charges	0.00%	£7,735.56	£25,155.62	£45,589.45
The Rexel Growth Fund (with Lifestyling Profile)				
Scheme charges	0.73%-0.74%	£7,591.55	£23,756.16	£41,351.23
Charge cap for qualifying workplace pension scheme	0.75%	£7,587.50	£23,719.25	£41,242.40

Starting assumptions:

- Starting salary: £30,000

- Contributions: £125 per month
- Salary increase: 2% p.a.
- Nominal fund growth: 4% p.a.
- Figures in today's terms based on an assumed inflation rate of 2.2% p.a.

Source: Punter Southall Aspire Pension Calculator

For reference, following the changes made to the default strategy with effect from May 2019, the equivalent Growth Fund charges have now reduced to between 0.54% p.a. to 0.53% p.a.

Trustee knowledge and understanding

The directors of the Trustee are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme. This requirement has been met during the course of the Scheme year as follows:

- The Trustee directors have undertaken ongoing training, both as a group and individually to keep abreast of relevant developments, including the provision of regular updates from their professional advisers.
- Following identification of Trustee development requirements, group Trustee training took place on 5 September 2018, and covered these identified needs:
 - DC investment & governance
 - Setting long-term investment strategy
 - Member options
 - Implementing member options
 - Alternative options to diversified growth funds
- The Trustee directors regularly review their training needs;
 - The last formal assesment took place in July 2019
 - This ongoing review and formal assessment will inform the annual group Trustee training day
- All new Trustee directors in the last Scheme year completed the "Mercer Trustee Toolkit Blitz" training.
- All the Trustee directors since October 2018 are now signed up to the PVI Trustee Group.

I confirm that the above statement has been produced by the Trustee to the best of its knowledge.



Ken Mullen, Chair of the Trustee