

Rexel UK Pension Scheme - DC Section

Annual statement regarding governance

The Trustee of the Rexel UK Pension Scheme (the Scheme) presents its annual Chair's statement on governance (the 'Statement') of the DC Section as required under legislation. (Note: Appendix A attached to this Statement sets out the regulatory requirements and is referenced in superscript in the Statement). The Statement covers the period 6 April 2020 to 5 April 2021.

The default investment option

In accordance with the Administration Regulations, the Trustee is required to include the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Plan and the SIP is therefore attached to this Statement.

Under the governance framework provided by the Pension Regulator the Trustee is required to undertake a review of the default investment strategy at least every three years. The review needs to take into account both current contributing and non-contributing members of the Scheme to ensure the default is appropriate to the membership's needs. A formal review of the default investment strategy and fund range was undertaken during the Scheme year ending 5 April 2020. The default investment strategy review concluded that the overall objective of the default and alternative lifestyle strategies remains appropriate for the Scheme's active and non-active members and at this time no further changes have been made.

The next full triennial investment review is due to be undertaken in 2022/23 and no later than 12 March 2023.

The Scheme's default investment strategy 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 DGF. 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 Trustee monitors the security of the underlying investments.

The Statement of Investment Principles (SIP) attached in Appendix B was updated in March 2021 to reflect the agreed approach to Environmental, Social and Governance (ESG) principles in line with the Pension Regulator's requirements. As the Scheme uses a number of standard unitised funds which are managed to a specific remit determined by the respective fund manager, the Trustee is limited in directly influencing ESG policy. The Trustee has established a policy of monitoring the fund managers' ESG policy on the funds available to the Scheme's membership.

During the year, the Trustee reviewed the performance of the default investment strategy and wider fund range on a quarterly basis. To do this the Trustee assess the actual performance of each fund compared with its objective with support from its Investment Adviser. The Trustee has concluded that each fund has performed broadly in line with its objective during the Scheme year. The performance of the default fund, and wider fund range, will continue to be monitored regularly.

Requirements for processing financial transactions

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

These include:

- 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.

This information is detailed within the quarterly management reports produced by XPS.

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 and the Scheme has a service level agreement ("SLA") in place with XPS, as the administrator, which covers the accuracy and timeliness of all core financial transactions. 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 or telephoning XPS, the Scheme 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 KPMG against the stated AAF controls. The most recent completed annual assessment was undertaken for the year ending 31 December 2020 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. The exceptional circumstances caused by the COVID-19 pandemic resulted in the Pensions Regulator issuing guidance regarding the deferral of contributions to help employers. The Trustee and Employer maintained regular communication and agreed to a 4 months deferral of contributions during the Scheme year.

XPS invested all within a 5 day turnaround.

To supplement the financial control processes within XPS, the Pensions Manager at Rexel UK Ltd in conjunction with XPS is continually 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.

The Trustee receives quarterly reports about XPS's performance and compliance with the SLA; using information provided by XPS, which has been reviewed by the auditors, the Trustee is satisfied that over the period covered by this statement:

- XPS was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

Covid-19

The Trustee Directors continue to keep the wider implications of the Covid-19 pandemic under review with their advisers and, on an operational level, are working with XPS to minimise any disruption to service delivery (for example, any delays in responding to member enquiries and processing transactions at this time). XPS informed the Trustee that they have successfully implemented their business continuity plan and that the impact on service delivery has been minimal. We continue to communicate to members to keep them informed of any impact on their investments.

Charges and transaction costs

As required by the regulations, the Trustee reports on the charges and transaction costs for the investments used in the default arrangements and its assessment of the extent to which the charges and costs represent good value for members.

The Annual Management Charge (referred to as the Total Expense Ratio by the Scheme) consists principally of the investment platform manager's annual charge for hosting the fund(s), the underlying investment manager charge to operate and manage the fund(s) together with any additional expenses (such as custodian fees) incurred by the manager. The costs for other services provided to members and the Trustee are met by the Company, such as administration, investment, and pension consultancy services.

The data in the table below has been provided by the Scheme's administrator and investment management team and shows the charges applied to individual members' accounts.

Total Expense Ratio	This is the total of the fund's annual management charge and additional expenses. This does not include the Scheme's administration charge over and above the agreed member charge.
Total Transaction Costs	The total annual fund transaction costs. This is the total of the 'Buying and Selling' costs and 'Lending and Borrowing' costs as described below.

Fund Name	Annual Management Charge (AMC)	Annual Administration fee	Annual Transaction Costs
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Rexel Growth Fund (with Lifestyling Profile)				
LGIM Cash Fund	0.125%		0.30%	-0.002%
LGIM Rexel Consensus Index Fund	0.18%		0.30%	Not available (blended fund)
Aberdeen Standard DGF	0.50%		0.30%	0.0048%
Self-select funds				
LGIM World (ex-UK) Equity Index Fund	0.22%		0.30%	-0.012%
LGIM UK Equity Index Fund	0.10%		0.30%	-0.020%
LGIM Over 5-year index-Linked Gilts Fund	0.10%		0.30%	0.025%
LGIM Pre-Retirement Fund	0.15%		0.30%	0.037%

The Scheme's investment platform manager does not apply an explicit charge to switch investments between unitised funds.

No active member discount charging structures apply to the Scheme and the charges for the default investment strategy is below the DWP's charge cap for qualifying workplace pension schemes.

Illustrative impact of charges

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out below an illustration of the impact of charges and transaction costs on different investment scenarios in the Scheme. The illustrations on the projection of an example member's pension savings, have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes".

This is a detailed illustration of the likely impact of charges for a member invested for short, medium and long term in the default fund 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 expense ratio (TER)	Short term (5 years)	Medium term (15 years)	Long term (25 years)
The Rexel Growth Fund – No charges.	0.00%	£7,774	£25,528	£46,719
The Rexel Growth Fund Plan charges	0.54%-0.64%	£7,660	£24,343	£43,006
The Rexel Growth Fund	0.75%	£7,625	£24,070	£42,264
Charge cap for qualifying workplace pension scheme				

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 2.1% p.a.

Source: Punter Southall Aspire Pension Calculator

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.

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

- The AMC on funds have been assessed by the Scheme's 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 scheme year ending 5 April 2021 witnessed extremely turbulent markets due to a large degree to the Covid-19 pandemic. The biggest downward effect was seen by the predominantly Equity based funds in Q1 2020 but by Q2 2020 they had begun to recover. By mid-way through 2020 the investment outlook for the default investment funds over the quarter, one, three and five years had returned to a much more positive status as well as tracking their benchmarks. The Trustee are reassured by the long-term performance of the fund and its support of the overall risk management within the default investment strategy.
- The good quality administration support provided to members.

Investment performance

The below table sets out the performance of the funds that form part of the default investment strategy as well as those funds within the wider fund range that were being actively invested in by the Plan's membership.

March 2021 performance

Fund name	Quarter	1 year	3 years
Consensus Index Blended Fund	2.0%	25.0%	7.6%
<i>Benchmark</i>	<i>1.9%</i>	<i>25.1%</i>	<i>7.7%</i>
ASI Diversified Growth Fund	0.4%	19.0%	2.2%
<i>1 Month GBP LIBOR +5% p.a.</i>	<i>1.1%</i>	<i>4.8%</i>	<i>5.1%</i>
LGIM Cash	0.0%	-0.1%	0.3%
<i>7 Day GBP LIBID</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.4%</i>
Default Portfolio Growth Phase	1.2%	22.0%	4.7%
<i>CPI + 2.5%</i>	<i>0.8%</i>	<i>3.3%</i>	<i>3.9%</i>

Source: Barnett Waddingham

Self-select funds

Fund name	Quarter	1 year	3 years
LGIM World (ex-UK) Equity Index Fund	4.0%	40.5%	13.9%
<i>FTSE World (Ex UK) Index</i>	<i>4.0%</i>	<i>40.8%</i>	<i>14.1%</i>

LGIM UK Equity Index Fund	<i>FTSE All Share Index</i>	5.2%	26.7%	3.2%
		5.2%	26.7%	3.2%
LGIM Over 5-year index-Linked Gilts Fund		-0.7%	2.5%	3.5%
<i>FTSE Actuaries UK I-L Gilts Over 5 Years Idx</i>		-0.7%	2.6%	3.5%
LGIM Pre-Retirement Fund	<i>Benchmark*</i>	-7.9%	2.4%	4.3%
		-7.8%	2.9%	4.4%

*The benchmark asset allocation for the Fund is a composite of gilts and corporate bond funds.

Source: Barnett Waddingham

Trustee knowledge and understanding

The Trustee is 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. The Trustee maintains a training log to record training undertaken and support discussions on future training needs. The Trustee, alongside its Investment advisor, regularly reviews the Trustee training needs and identifies any actions required. Training is provided during Trustee meetings and Trustee Directors are expected to undertake training in their own time.

A training log is maintained of all the activities undertaken by the Trustee directors individually and as a group.

In addition, all scheme documents are made available to the Trustee directors on an ongoing basis for review and to maintain their knowledge. The Trustee directors confirm that they have sufficient knowledge and understanding of the Scheme's documents to carry out their roles including the SIP, Trust Deed and Rules and governance documentation.

Below, are a number of examples of how the requirements have been met during the course of the scheme year:

- 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 over 2 days on 3 and 23 September 2020, with sessions delivered by professional advisers that covered these identified needs:
 - Illiquid Assets
 - Strategy Update
 - ESG
 - Member Profiling
 - Valuation Update
 - Longevity Update
 - Superfunds
 - Long-term funding targets
- All Trustee directors attended the Covid-19: Impact on pensions training held on 6 August 2020
- All new Trustee directors are required to complete the "Mercer Trustee Toolkit Blitz" training.
- All the Trustee directors have since October 2018 signed up to the PMI Trustee Group and membership is renewed annually.
- The Trustee directors are regularly supplied with specific press articles and briefing notes for their review and to complement their own research.

- The Trustee directors regularly review their training needs;
 - The last formal assesment took place in July 2020
 - This ongoing review and formal assessment informs the agenda for the annual group Trustee training day

Taking into account the knowledge and experience of the Trustee directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, actuary, administrators, and legal advisors), the Trustee directors believe they are well placed to exercise their functions as Trustee directors of the Scheme properly and effectively.

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

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KJ Mullen,

Chair of the Trustee