

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the trustees of schemes with money purchase benefits (other than schemes which only have money purchase benefits arising from AVCs) to include an annual statement regarding the governance of these benefits in the annual report. As the Scheme has six members who transferred into the Scheme money purchase benefits ("DC transfers-in") with an estimated current value of £65k, the Trustee has taken the decision to include a DC governance statement.

Default arrangement

When members with AVC's or DC transfers-in (referred to as "DC members") joined the Scheme there was no default fund in place, and members decided themselves how their funds were to be invested, selected from the range of funds being made available at that time. The Scheme is not designated as a qualifying scheme for the purposes of auto-enrolment and as no AVC contributions have been made since 2010, there is no requirement to establish a default fund.

Periodically the Trustee Directors have considered whether a default fund should be put in place for members, however the Trustees have concluded that offering a default fund would offer no real value to members. The reason for this is that the existing arrangement only offers a very limited fund range, and in the Trustee Directors' opinion after having reviewed reports supplied by independent advisors, none of the funds are appropriate to act as a default fund which would be suitable for the needs of all or most of the members.

The default fund position was last reviewed in September 2018, and that review included consideration of the profile of both the members with DC transfers-in and those with AVCs, the range of investment options available already in comparison to the options which could be offered in other investment arrangements and the charging structure (including the costs of realising the current investments). Balancing all of these points, the Trustee decided that member outcomes were unlikely to be improved by the introduction of a default fund or indeed any change in the range of investment options to be made available, particularly as this would remove the option of members investing within the Prudential With Profits fund, which is a fund that was selected by more than 50% of the membership.

Processing scheme 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 Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to these members are processed promptly and accurately. In the case of the DC transfers-in and the AVCs, as the Scheme no longer accepts new contributions, the level of transactions is relatively low and mainly encompasses the administration of retirements, deaths and transfers out.

These transactions are undertaken on the Trustee's behalf by the Scheme administrator, Equiniti. The Trustee has reviewed the processes and controls implemented by Equiniti and consider them to be suitably designed to achieve these objectives. The Trustee's in-house pensions support provided by Crest Nicholson plc also monitors closely the work undertaken by Equiniti to add another layer of regular oversight which is in addition to the reports the Trustee receives at its meetings.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Processing scheme transactions - continued

In the last year, the Trustee has reviewed the specific service level agreements agreed with Equiniti for the Scheme's overall administration including the DC transfers-in and AVCs and Equiniti has completed 90.82% of the work measured within agreed service levels. Where service levels were not met, this was closely monitored by the in-house pensions team at Crest Nicholson plc and was generally as a result of individual queries needing to be referred to the Trustee for additional input/authorisation, and as a result, the Trustee has not identified any specific service standard issues that need to be addressed at this time.

The Trustee periodically reviews and compares service levels with other pension schemes where obtainable. As part of the agreed service levels, the Trustee receives quarterly service reports from Equiniti, with the last report indicating that there were zero administrative errors in the last quarter and that 98.8% of work was completed within the agreed service levels. Currently, the service standards are 10 days for illustrations, 5 days for a transfer and 3 days for a retirement settlement, with an expected accuracy of the work undertaken of 100%.

The outsourced administration of the Scheme was last reviewed in January 2018, and it was decided that no changes would be made at that time, and the administration services would be formally reviewed again within the next two years.

In the light of the above, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

Investment Performance

The annualised performance of the various funds available (and their respective benchmarks), over the period ending 31 March 2019 were as follows:

| Fund | 12 months (%) | 3 years (%) | 5 years (%) |
|--|----------------|------------------|------------------|
| Phoenix Life With Profits (Nelex) Fund | 4.8% | 4.6% | 4.5% |
| Zurich Life With Profit Fund | 0% | 0% | 0% |
| Prudential With Profit Fund | 2.5% | 2.5% | 2.5% |
| Discretionary Fund | 4.7% (5.9%) | 10.3% (9.1%) | 7.7% (7.3%) |
| Fixed Interest | 3.2% (3.7%) | 3.1% (3.6%) | 5.0% (5.5%) |
| Global Fund | 5.0% (6.4%) | 10.3% (8.7%) | 7.1% (8.1%) |
| Index Linked Fund | 5.1% (5.7%) | 8.9% (9.1%) | 9.8% (9.9%) |
| International Fund | 3.8% (6.3%) | 13.0% (14.2%) | 10.3% (11.6%) |
| Deposit Fund | 0.0% (0.5%) | -0.3% (0.3%) | -0.3% (0.3%) |

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Investment Performance - continued

| Fund | 12 months (%) | 3 years (%) | 5 years (%) |
|-------------------------|------------------|------------------|----------------|
| UK Property Fund | 5.2% (4.8%) | 6.0% (6.1%) | 7.2% (9.1%) |
| UK Equity Fund | 6.0% (6.4%) | 9.3% (9.5%) | 5.7% (6.1%) |
| Managed Pension Fund | 3.1% (4.0%) | 8.8% (8.3%) | 7.3% (6.5%) |
| Ex M&G Recovery | -1.0% (0.7%) | 9.4% (7.9%) | 2.6% (5.3%) |
| Ex M&G UK Select | 3.9% (0.7%) | 8.9% (7.9%) | 5.8% (5.3%) |
| Ex M&G Fixed Interest | 2.5% (2.5%) | 2.6% (2.5%) | 4.2% (3.9%) |
| Ex M&G Pacific Markets* | - | - | - |
| Ex Property | 1.5% (2.5%) | 3.0% (3.7%) | 6.8% (6.2%) |
| Ex Equity | 0.6% (0.7%) | 8.9% (7.9%) | 5.8% (5.3%) |
| Ex M&G Euro Select | -1.5% (-0.5%) | 10.2% (10.1%) | 7.1% (7.2%) |

* No current performance data as fund has re-launched within the last year, as a result there is no actual performance data available

Transaction costs

The Administration Regulations require the Trustee to make an assessment of charges and transaction costs borne by members and the extent to which those charges and costs represent good value for money for members.

There have been no contributions made to the Plan since May 2010, and there is no facility for a member to make further contributions, or to transfer in additional monies, and the core financial transactions are therefore the transfer of benefits out of the Plan, switching of monies between the available funds and the payment of benefits.

The arrangement in place makes available a limited range of funds in addition to a With Profit fund, which may be chosen by members. These funds attract annual charges, and the level of charges for each fund is set out in the "Guide to Fund Options" booklet which is available from Prudential on request. These funds allow members to take a more tailored approach to managing their own pension investments.

Over the year to 31 March 2019, the charges made against member funds consist of the Annual Management Charge ("AMC") and where applicable an Additional Charge, which have not changed over the course of the Scheme year. The AMC represents the cost of managing the fund, whereas the Additional Charge represents additional costs incurred by in the running of the fund, that are not covered by the AMC, and can include fees such as any legal or custodian fees incurred by the fund. Any other costs incurred to the Scheme such as the costs of administration, governance, advice and consultancy fees are borne by the Trustee or Crest Nicholson plc directly, and not by the members themselves.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Transaction costs - continued

| Fund | Annual Management Charge | Additional Charges |
|------------------------|--------------------------|--------------------|
| Discretionary Fund | 0.75% | 0.08% |
| Fixed Interest | 0.75% | 0.02% |
| Global Fund | 0.75% | 0.04% |
| Index Linked Fund | 0.75% | 0.01% |
| International Fund | 0.75% | 0.04% |
| Deposit Fund | 0.75% | 0.02% |
| UK Property Fund | 0.75% | 0.7% |
| UK Equity Fund | 0.75% | 0.01% |
| Managed Pension Fund | 1% | 0.07% |
| Ex M&G Recovery | 1% | 0.0% |
| Ex M&G UK Select | 1% | 0.0% |
| Ex M&G Fixed Interest | 1% | 0.0% |
| Ex M&G Pacific Markets | 1% | 0.13% |
| Ex Property | 1% | 1.16% |
| Ex Equity | 1% | 0.0% |
| Ex M&G Euro Select | 1% | 0.0% |

Some illustrative examples of the cumulative effect of these costs and charges are shown below:

Projected Pension Pot in today's terms

| Years | UK Equity Fund | | Deposit Fund | | International Fund | | Ex M&G Property Fund | | Prudential With Profits Fund | |
|-------|------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
| | Before all costs and charges | After all costs and charges | Before all costs and charges | After all costs and charges | Before all costs and charges | After all costs and charges | Before all costs and charges | After all costs and charges | Before all costs and charges | After all costs and charges |
| 0 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 | £21,000 |
| 1 | £21,895 | £21,735 | £21,109 | £20,948 | £22,006 | £21,840 | £22,504 | £22,050 | £21,945 | £21,735 |
| 3 | £23,800 | £23,283 | £21,329 | £20,843 | £24,165 | £23,622 | £25,841 | £24,310 | £23,964 | £23,283 |
| 5 | £25,871 | £24,941 | £21,552 | £20,739 | £26,535 | £25,550 | £29,674 | £26,802 | £26,170 | £24,941 |
| 10 | £31,871 | £29,623 | £22,118 | £20,481 | £33,529 | £31,085 | £41,932 | £34,207 | £32,612 | £29,623 |
| 15 | £39,263 | £35,182 | £22,699 | £20,226 | £42,366 | £37,820 | £59,253 | £43,657 | £40,641 | £35,182 |
| 20 | £48,370 | £41,786 | £23,295 | £19,975 | £53,532 | £46,014 | £83,729 | £55,719 | £50,646 | £41,786 |
| 25 | £59,588 | £49,628 | £23,907 | £19,726 | £67,642 | £55,983 | £118,314 | £71,113 | £63,114 | £49,628 |
| 30 | £73,409 | £58,943 | £24,535 | £19,481 | £85,470 | £68,111 | £167,186 | £90,761 | £78,652 | £58,943 |
| 35 | £90,436 | £70,005 | £25,180 | £19,238 | £107,998 | £82,868 | £236,246 | £115,836 | £98,014 | £70,005 |

Assumptions

- The projected pension pot values are shown in today's terms, and do not need to be reduced further for the effects of future inflation
- Inflation is assumed to be 2.5% each year
- The starting pot size is assumed to be £21,000
- No future contributions are being paid into the scheme
- The values shown are estimates, and are not guaranteed in any way
- The projected growth rate for each fund (before costs and charges) are as follows:

| | |
|------------------------------|-----------------------|
| UK Equity Fund | 4.26% above inflation |
| Deposit Fund | 0.52% above inflation |
| International Fund | 4.79% above inflation |
| Ex M&G Property Fund | 7.16% above inflation |
| Prudential With Profits Fund | 4.5% above inflation |

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Transaction costs - continued

The With Profit fund does not declare all of the charges attaching to the fund, as these are factored into the declared return, or included within any surrender value calculated, but are not explicitly detailed. The Annual Management Charge amounts to 1% of assets under management for all members within the With Profit fund. In addition, an additional charge of up to 2% may be made by Prudential and would be included within any quoted surrender value. This additional charge reflects the cost of the guarantees included within the fund. This is higher than the maximum allowed of 0.75% under the new default fund charge limitations imposed as a result of auto-enrolment, but this charge cap does not apply to the Scheme given it is not required to have a default fund.

When this was last reviewed in September 2018, there was no Market Value Adjuster ("MVA") attaching to the With Profits investments, although it should be noted that an MVA can be added to a With Profit investment at any time, subject to the relevant policy conditions. The MVA position will be monitored and commented upon within future versions of this statement.

Given that the charges under the Scheme are higher than the Trustee would like, when considered on their own the Trustee does not consider the costs to be good value for members. However, when seen in the context of member benefits overall in the Scheme and the fact that members are not entirely reliant on these funds for all of their retirement provision from the Scheme, the size of the assets under management and the limited power the Trustee has to negotiate lower charges, the member borne costs of moving the funds especially from the With Profits option the Trustee considers that the costs and charges borne by members are reasonable.

It should be noted that the Trustee keeps the investment platform under periodic review but have decided that it is not appropriate to make any changes at this time. One of the key reasons for this is that there are very few comparable alternatives to the With Profit style of fund, and a significant number of members have a significant proportion of their funds invested within the With Profit fund. The Trustee does not believe that it is in the members' interests to change the investment options available to members, but members are reminded that they should review their funds, and that there are alternatives available to them.

Trustee Directors' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustee directors to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustee directors properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07.

The comments in this section relate to the Trustee Directors as a body in dealing with the whole scheme and are not restricted to the DC transfer-ins. 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. The Secretary to the Trustee reviews the self-assessments and arranges for training to be made available to individual Trustee Directors or to the whole trustee director body as appropriate. In addition, the Trustee Directors receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Trustee Directors' knowledge and understanding - continued

All of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit with new Trustee Directors required to complete this within six months of taking up office if they have not already done so. As part of their ongoing training and knowledge development, during the year Trustee Directors attended various training/conference/webinars as part of their desire to share wider experiences within the market and to be better positioned to respond to a changing economic and political landscape.

This ongoing training and development is intended to support the Trustee Directors in maintaining a working knowledge of the Trust Deed and Rules of the Scheme, the current Statement of Investment Principles, all other documents detailing the Trustee's current policies and the Trustee's understanding of the law relating to pensions and trusts as well as the relevant principles of the funding and investments related to this Scheme. The Trustee Directors have attended various training sessions and seminars relating to investments, the mechanics of buy-out and valuation presentations in this regard. It should be noted in particular as follows:

- Two of the three current Trustee Directors were involved in a complete review of the current Scheme rules including an updating exercise with the Scheme's solicitors, resulting in a high degree of familiarity with the Scheme rules. The Trustee Director who has been appointed since that project was concluded is a practicing pensions solicitor and she has undertaken her own review of the Scheme rules as a part of her induction as a Trustee Director of the Scheme;
- The Trustee has re-tendered its investment consultants recently and appointed new advisers who have conducted a full review of the investment strategy for the Scheme which has resulted in changes to the investment approach and level of risk being taken. This process has involved all of the current Trustee Directors who have used this opportunity to refresh their understanding of the principles underlying investments matters. The review has resulted in the Trustee preparing a new statement of investment principles with their investment advisers. One of the Trustee Directors is an investment professional who is particularly familiar with all aspects of investment related matters.
- The Trustee Directors receive regular updates on the funding position of the Scheme in the context of movements in the Scheme's assets and key indicators on the sponsors' covenant. Regular opportunities to refresh knowledge of the underlying principles of the funding are taken at Trustee meetings which are attended by the Scheme actuary or a representative of XPS as the Scheme's actuarial advisers. Valuation training is given before each actuarial valuation commences. Two of the Trustee Directors were involved in the negotiation of the last actuarial valuation and are fully familiar with the terms of it. The third trustee director who has been appointed since the last valuation has reviewed the funding and valuation documentation as well as meeting separately with the Scheme actuary to discuss the Scheme's funding position as a part of her induction. The Trustees receive regular updates from their advisers including the Scheme lawyers on changes in pensions law. Legal advice from the Scheme's solicitors contains elements which are training on legal matters and one of the Trustee directors is a practicing pensions solicitor and she ensures that legal matters are properly addressed as a part of trustee business and decision making.

Crest Nicholson Group Pension and Life Assurance Scheme

Chairman's DC Governance Statement For the year ended 31 January 2019

Trustee Directors' knowledge and understanding - continued

- The Scheme has a number of policies on key areas of its operations as well as a risk register and integrated risk management report. Selected policies are reviewed once a year on rotation to ensure that all are considered as a part of an ongoing program of review and governance improvement. The risk register has recently been reviewed by the last appointed trustee director to give a fresh perspective on the Scheme risks in the context of legal matters and individual risks are reviewed at meetings to ensure that all are reviewed on rotation not just the key ones. The integrated risk management report is updated and circulated to the Trustee directors on a regular basis allowing the key financial, sponsor and investment risk to be monitored effectively.
- Two of the Trustee directors are pensions professionals, one with investment expertise and the other pensions law expertise. The member nominated trustee is an experienced business professional working within the Crest Nicholson group. Taking account of actions taken individually and as a trustee director body, along with the professional advice available to them, the Trustee Directors consider that they are enabled properly to exercise their functions as Trustee Directors.

DC governance

The Trustee of the Crest Nicholson Group Pension Scheme has reviewed and assessed that where applicable to the DC arrangements that are part of the Scheme, its systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's: Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes. These are underpinned by the DC quality features.

Based on the Trustee's assessment and subject to the explanations set out below the Trustee believes that it has adopted the standards of practice set out in the DC regulatory guidance with regards to the Scheme's DC arrangements. These help demonstrate the presence of DC quality features, which the Trustee believes will help deliver better outcomes for members at retirement. In support of this, members are provided with an annual statement each year, as well as receiving separately an annual Newsletter, both of which look to encourage members to assess and review the investment of their funds.

As the Scheme is now closed to future accrual, AVC contributions are no longer being paid and transfers-in are not accepted. While the overall choice of funds for these historic DC transfers-in and AVC's are not extensive, the Trustee believes that they meet the needs of the members and where a member wishes to transfer only their AVC funds to a more recent AVC platform, there are processes in place that allow a member to do this.

The Trustee will continue to periodically review the DC investments and when appropriate, obtain relevant advice and guidance on the appropriateness of the DC providers and the range of funds made available by the Trustee to members.

The Statement regarding DC governance was approved by the Trustee on

.....29 AUG 19..... and signed on its behalf by:



D Revolta
Chairman