

The Sky Pension Plan

Annual governance statement by the Chair of Trustees for the year ending 30 June 2020

Introduction

Governance standards apply to defined contribution pension arrangements. These standards are designed to help members achieve a good outcome from their retirement savings.

As Chair of the Trustees of the Sky Pension Plan ('the Plan'), I have to provide you with a yearly statement that explains what steps the Trustees (with guidance from our professional advisers) have taken to meet these standards. The information included in my statement is set out in law and regulation.

The Trustees are committed to having high governance standards and meet regularly to monitor the controls and processes in place in connection with the Plan's investments and administration.

The worldwide spread of Coronavirus, or COVID-19, commenced in the last third of the Plan year and the bulk of the investigations and actions taken by the Trustees will be covered in next year's annual governance statement.

However, the Trustees would like to reassure members that:

- the previous administrators, Willis Towers Watson, reacted by following government guidance and taking actions such as asking employees to work remotely. In addition, 100% of the new administration team at Buck were equipped for home-working and able to access in-office phone and computer systems from Monday, 23 March 2020;
- assisted by our advisers and through hosting virtual meetings, we are also monitoring the impact of the pandemic on the Plan, particularly on ongoing investment returns, administration standards, member support service levels and the ability of the Company to pay contributions on time and fulfil other financial obligations; and
- due to the COVID-19 outbreak, longer-term 'growth' assets like equity funds and diversified funds are likely to have suffered significant falls in the first quarter of 2020. Other types of investment options, such as bonds, are unlikely to have been affected as much as shares. Cash funds will have provided protection from the volatility that most other types of investments have experienced. As pensions are a long-term savings plan, it is expected that there will be some short-term fluctuations. The current situation is extreme but, looking back over history, there have been many periods of turmoil that global economies and markets have recovered from.

Overall, I welcome this opportunity to explain what the Trustees do to help to ensure the Plan is run as effectively as it can be.

Default investment strategy

The Trustees are responsible for investment governance. This includes having a good working knowledge of investment matters relating to the Plan and both setting and monitoring the default investment strategy within the Plan. We take professional advice from regulated investment advisers and have appointed fund managers to manage the DC investments within the Plan. We also make use of an Investment Sub-Committee who investigate and report to the main Trustee board on investment-related matters.

The Trustees have selected and provide a default investment strategy for Plan members who do not choose an investment option for their contributions, although members can also choose to invest in this default investment strategy.

Setting an appropriate default investment strategy

Over the Plan year to 30 June 2020, the Cash Lifestyle was the default strategy for the Plan. When deciding on the Cash Lifestyle as the default investment strategy, the Trustees recognised that the majority of members do not take active investment decisions and instead invest in the default option with the default target retirement age.

When choosing the default strategy, it is the Trustees' intention to ensure that assets are invested in the best interests of the relevant members and beneficiaries. The Trustees consider that the Cash Lifestyle is likely to be appropriate for a typical Plan member in the normal course of events, although members are encouraged to at least select the target retirement age.

Under the default Cash Lifestyle, a member's assets are automatically invested in line with a pre-determined strategy that switches the investments from global equities and diversified growth assets to an increasingly diversified allocation and finally into money market instruments as the member approaches retirement.

The Trustees recognize that this lifestyle design may not be suitable for all members, but believe that it will provide a useful tool for those who feel unable or simply forget to amend their investment strategy as they approach their target retirement age.

Details of the strategy and objectives of the default investment arrangement are recorded in a document called the Statement of Investment Principles. A copy of the latest Statement of Investment Principles is attached to this statement.

Reviewing the default investment arrangement

The Investment Sub-Committee and Trustee board reviews the performance of the default investment strategy (as well as the alternative lifestyle options and the self-select fund range) on at least a quarterly basis, taking advice from the Trustees' investment consultant.

The Trustees are required to review the strategy and objectives of the default investment strategy regularly – at least once every three years – and take into account the needs of Plan members when designing it.

The last completed formal default strategy review was carried out in 2016, with changes being implemented in the fourth quarter of 2016. As a result, a formal review of the default investment strategy was required in 2019. The Trustees – taking advice from the Trustees' investment consultant – commenced a review of the default investment strategy in the Plan year to 30 June 2019 and continued the review during the Plan year to 30 June 2020, but the review was not completed until September 2020. Further details will be provided in my annual Governance Statement for the year to 30 June 2021.

Self-select investment choices

In addition to the default investment strategy, the Trustees allow members to select alternative lifestyle strategies and a range of self-select funds – details can be found in the following section. Members are expected to consider taking independent financial advice before choosing between these options. Any members considering switching funds during the COVID-19 pandemic should consider the risk involved and take any advice they feel is necessary. Free impartial guidance is available from the Pensions Advisory Service. Visit their website at <https://www.pensionsadvisoryservice.org.uk/>

Charges and transaction costs paid by members

Explanation of the charges paid by members

The Trustees are required to explain the charges that are paid by Plan members rather than the employer, as well as the transaction costs paid (i.e. the costs of buying and selling investments in the Plan).

In the Plan, members typically only pay for investment management and investment transactions, while the employer pays all the other costs of running the Plan, such as administration and governance.

The investment management and transaction costs can be explained as follows:

- The total ongoing charges figure is the total cost of investing in any fund or strategy and includes the Annual Management Charge (direct charges) and any additional fund expenses (indirect charges). The charges for the default investment strategy are compared against the 0.75% charge cap set by legislation.
- Transaction costs are the costs incurred as a result of the buying, selling, lending or borrowing of investments *within* each fund or strategy. They include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and the costs of borrowing or lending securities, as well as any differences between the actual price paid and the quoted 'mid-market price' at the time an order was placed. These costs will vary between members depending on the funds invested in, the transactions that took place within each fund and the date at which the transactions took place. Unlike the ongoing charges figures, transaction costs are not compared against the 0.75% charge cap set by legislation – instead, the reported performance of the fund is typically net of these transaction costs. It should be noted that the transaction costs are likely to vary from fund to fund and from year to year.
- In addition, there can be switching costs occurred as a result of the buying and selling of funds. This may relate either to member-driven trades (e.g. a self-select member switching their investment arrangements) or to automatic trades (e.g. those associated with fund switches resulting from progression along a lifestyle glidepath). These costs relate to the difference between the fund price used to place the trade and the price which would have applied to that fund on that day had the trade not been placed. These are implicit costs which are not typically visible to members.

Details of the levels of charges and transaction costs over the Plan year

The level of total ongoing charges and transaction costs applicable to the funds within the Plan's default investment strategy – the Cash Lifestyle – were confirmed by the fund managers as being the following over the Plan year:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs ¹
BlackRock Aquila (30:70) Global Equity Fund	0.09%	0.01%	0.10%	0.07%
Schroders Diversified Growth Fund	0.35%	0.06%	0.41%	0.38%
BlackRock Aquila Cash Fund	-	0.03%	0.03%	0.01%

The level of total ongoing charges and transaction costs applicable to the funds within the Plan's alternative lifestyle investment strategies – the Drawdown Lifestyle, the Annuity Lifestyle and the closed-to-new-entrants 5-year Annuity Lifestyle – were confirmed by the fund managers as being the following over the Plan year:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs ¹
BlackRock Aquila (30:70) Global Equity Fund	0.09%	0.01%	0.10%	0.07%
Schroders Diversified Growth Fund	0.35%	0.06%	0.41%	0.38%
BlackRock Aquila Over 15 years UK Gilt Fund	0.10%	0.01%	0.11%	(0.04%)
BlackRock Aquila Over 15 years Corporate Bond Fund	0.08%	0.03%	0.11%	0.15%
BlackRock Aquila Cash Fund	-	0.03%	0.03%	0.01%

The level of total ongoing charges and transaction costs applicable to the other self-select funds (on top of the funds above) were confirmed by the fund managers as being the following over the Plan year:

	Direct charges	Indirect charges	Total ongoing charges	Transaction costs ¹
BlackRock Aquila 50:50 Global Equity Fund	0.09%	0.01%	0.10%	0.01%
BlackRock Aquila Over 5 Years UK Index Linked Gilt Fund	0.08%	0.01%	0.09%	0.02%
BlackRock Aquila UK Equity Fund	0.10%	0.01%	0.11%	0.01%
M&G Property Fund	0.55%	0.64%	1.19%	(0.01%)
M&G UK Equity Recovery Fund	0.65%	0.02%	0.67%	-
MFS Global Equity Fund	0.65%	0.05%	0.70%	0.12%
Schroders Climate Change Fund	0.75%	0.07%	0.82%	0.33%
Veritas Global Focus Strategy Fund	0.60%	0.19%	0.79%	0.82%

¹ A charge in (brackets) is effectively a negative cost i.e. it boosts net return, rather than detracting from it. A 0.00% transaction cost figure doesn't necessarily mean zero transaction costs but could mean that costs are exactly offset by negative costs.

Completeness of charges and transaction cost information

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information. Our new administrators and advisers, Buck, identified some shortcomings in the data obtained for the last Plan year.

As a result, the Trustees are pleased to say that Buck have been able to improve the quality and transparency of the costs and charges information obtained from the fund managers for this Plan year compared to last year.

In particular, the Trustees are now able to disclose:

- The level of indirect charges and therefore total ongoing charges for each fund (only the Annual Management Charge was obtained and disclosed last year); and
- The proportion of transaction cost data that was not available (which was not disclosed last year).

Please note that the investment managers have confirmed that transaction cost data was not available over the Plan year for 3% of the Schroders Diversified Growth Fund (i.e. transaction cost data was only provided for 97% of the holdings for this fund). For all of the other funds, 100% of the transaction cost data was provided.

In addition, only Veritas was able to supply transaction cost data prior to 1 July 2018 (the data Veritas provided was from 1 July 2015 onwards).

We expect that the recent discussions held with fund managers will ensure that we are provided with improved charge and transaction cost data going forward. Should the quality, transparency or timeliness of the charges and transaction costs drop in future years, we will review the process again and will discuss with the fund managers their ability to provide complete information more quickly.

Finally, in terms of switching costs, the funds used by the Plan operate on a single-swinging price basis with no explicit switching costs charged to members. However, members may experience implicit switching costs whenever assets are sold (as is the case throughout the lifestyling phase). These costs will vary between members depending on what switches took place for each member and the date at which these occurred. The Trustees are not able to track what costs have been incurred in practice for particular members. It should be noted that not all switches will incur these costs, with many taking place at nil cost.

Illustration of the impact of charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's retirement savings can reduce the amount available to the member at retirement. We are required to provide illustrative examples of the cumulative effect over time of the impact of the charges and transaction costs on member's savings.

We have prepared illustrations that can be found in Appendix A, having taken account of the statutory guidance issued by the Department of Work and Pensions² in preparing this section of our statement.

² <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

Core financial transactions

The Trustees are required to report to you about the processes and controls in place in relation to 'core financial transactions'. The law specifies that these include the following:

- investing contributions paid into the Plan;
- transferring assets relating to members into and out of the Plan;
- transferring assets between different investments within the Plan; and
- making payments from the Plan to, or on behalf of, members.

The Trustees must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate responsibility for this to the Plan's administrator. For the Plan year to 30 June 2020, this was the previous administrator, Willis Towers Watson (Buck replaced Willis Towers Watson as administrator on 13 July 2020).

Over the Plan year, there was a service level agreement in place between the Trustees and Willis Towers Watson which provided for Willis Towers Watson to ensure accurate and timely processing of the core financial transactions for which it was responsible. Willis Towers Watson was required to carry out services in accordance with good industry practice and, more specifically, payments in respect of members must reach the recipients as agreed with the Trustees and in accordance with the Plan's trust deed and rules. This administration service included key financial tasks such as managing the investment of contributions, paying benefits (or making transfers) and keeping track of changes in members' circumstances.

In order to monitor this service, the Trustees received quarterly reports and quarterly summary dashboards over the Plan year, confirming the payment of contributions, the reconciliation of units, the cash statement, the level of service that is provided in comparison to agreed targets and timescales, as well as information on other core financial transactions such as suspended/augmented pensions or late/unauthorised payments. The Trustees discuss these at each Trustee meeting, noting any specific issues that have arisen with the administration services provided (covering core financial transactions and member processing).

The Trustees monitor transactions made via the Trustees' bank account on a quarterly basis. The Plan's Auditor tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process. For the quarter to 31 March 2020, for instance, which covered the period during which lockdown was introduced across the UK as a result of COVID-19, contributions were invested by Willis Towers Watson in a timely manner on completion of the monthly reconciliation and following receipt of the contributions into the Trustees' bank account.

The agreed targets for some of the core financial transactions over the Plan year were as follows:

Event	SLA	Target
Deaths	4 days	90% within SLA
Retirement Settlement	5 days	90% within SLA
Transfer Out Completion	5 days	90% within SLA
Transfer In Completion	10 days	90% within SLA
Pension Sharing	5 days	90% within SLA
Investment Switching	5 days	90% within SLA
Data Changes	5 days	90% within SLA

The overall level of the quality and timeliness of the administration was higher over the Plan year than the previous Plan year, with the average SLAs for tasks processed over the Plan year being 92% (i.e. over the SLA of 90%). Although the performance was 84% for the quarter to 30 June 2020 compared to the SLA of 90%, and barring a low level of member complaints, there were no material administration service issues discussed in the Plan year that need to be reported here by the Trustees.

As a result, I am confident that all core financial transactions over the Plan year have been processed promptly, accurately and within a reasonable time and, overall, we are confident that the processes and controls in place with the administrator over the Plan year were robust and ensured that the financial transactions which are important to members are dealt with properly. We are confident that this is also the case following the change of administrators, but we will report in next year's governance statement on the performance of Buck as administrators since their introduction in July 2020.

Trustee knowledge and understanding

The law requires the Trustees to be conversant with the Plan's documents and to possess, or have access to, sufficient knowledge and understanding of the law relating to pensions and trusts and the principles relevant to funding and investment to be able to run the Plan effectively.

The Trustees meet all the knowledge and understanding requirements and understand the Plan and its documents. The Trustees are aware that we must have a working knowledge of the trust deed and rules of the Plan, the Statement of Investment Principles and the documents setting out the Trustees' current policies.

The Trustees are also aware that we must have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes. We do this by regularly reviewing the relevant Plan documents, via the Plan's online portal, and seeking advice from the Plan's legal advisers on matters of interpretation.

During the Plan year, we sought advice from the Plan's legal advisers on GMP equalisation, partial transfers and the transition of administration services from Willis Towers Watson to Buck

The Trustees take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board. The training log is reviewed at each Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee Board as a whole. All of the Trustees have made progress in completing The Pensions Regulator's on-line trustee toolkit and must review the toolkit on an on-going basis to ensure their knowledge remains up to date. New Trustees are required to complete the toolkit within 6 months of becoming a member of the Trustee Board.

The Trustees receive "on-the-job" training. This means that as new topics arise, their professional advisers attending the Trustee meetings will provide wider briefing notes and topical digests, as well as training during the meeting, so that the Trustees may engage on such topics in an informed manner. Relevant advisers attend meetings and are in frequent contact with the Trustee Board to provide information on topics under discussion, either specific to the Plan or in respect of pension or trust law.

During the Plan year, training on the following topics took place:

- GMP equalisation – covering the background to the current requirements, how equalisation affects the Plan and possible equalisation methods; and
- The Trustees also received presentations from the investment managers on the funds they hold.

The Trustees typically participate in an annual off-site training day that includes training on current legislative and industry hot topics and any identified gaps in knowledge and understanding. The Trustees were unable to arrange such a training day during the Plan year, principally due to the impact of COVID-19 lockdowns, but plan to have the next training day during the first quarter of 2021.

An evaluation of the performance and effectiveness of the Trustee Board as a whole was undertaken in the Plan year to 30 June 2019 and the Trustees reviewed the resulting Business Plan during the Plan year to 30 June 2020.

As a result of the training activities that have been completed by the Trustee Board individually and collectively, and taking into account the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Trustees enabled us to properly exercise our functions as Trustees over the Plan year.

Assessing value for members

As part of our assessment of the charges and transaction costs, the Trustees are required to consider the extent to which the member-borne charges and costs represent good value for members when compared to other options available in the market.

Based on our assessment, we conclude that:

- the Plan offered good 'value for member' over the year to 30 June 2020, when measured against the definition required by legislation, with the total weighted-average charges in particular representing excellent value; and
- when we take into account wider elements of value that members receive as a result of costs paid by the Company, including the generosity of employer contributions, we have concluded that the Plan also offered good 'value for money' overall over the year to 30 June 2020, with the administration and online services and the investment governance in particular representing excellent value.

Appendix B sets out the approach that the Trustees have taken, the conclusions we have reached (including explanations of how and why we have reached those conclusions) plus details of further actions the Trustees will take over the year to 30 June 2021 to maintain the good value for members and identify if further improvements can be made.

Final comments and feedback

Please note that on top of the information that can be obtained through the Member Portal, the following information is available on the publicly-available Sky Pension Plan website:

- Key documents such as the Statement of Investment Principles;
- Details of the lifestyle and freestyle investment options available to members;
- Details of the level of charges and transaction costs paid by members and illustrations of the impact of costs and charges on retirement savings; and
- Further explanation of the extent to which charges and transaction costs represent good value for members.

If you have any questions about anything that is set out in this statement, or any suggestions about what can be improved, please do let us know by contacting Kiran Lamb, Pensions & Benefits Manager, by emailing kiran.lamb@sky.uk.

The Plan's administrators, Buck, can be contacted by emailing spp@buck.com or calling the new helpline 0330 678 1504 (helpline hours: Monday to Friday, 9.00am to 5.00pm).

Signed for and on behalf of the Trustees of the Sky Pension Plan by Tanya Richards, Chair of Trustees

Signed Tanya Richards

Date 23 December 2020

Appendix A – illustrations of the impact of costs and charges

Each table in this section shows the projected pension savings (or 'retirement pot') in today's money for a different representative member, using median statistics as at 30 June 2020 and using the Statutory Money Purchase Illustration (SMPI) assumptions as at 1 July 2020 that feature in the Plan's annual benefit statements due to be issued in the first quarter of 2021.

In line with the statutory guidance issued by the Department of Work and Pensions³, we have shown illustrations for the default Cash Lifestyle strategy, the most popular self-select fund, the funds with the highest/lowest projected returns and the funds with the highest/lowest total ongoing charges.

The only difference between the assumptions used for the enclosed projections and those used for the projections within the annual benefit statements is that transaction costs are taken into account in the enclosed tables, when these are ignored within SMPI statements.

'Typical' active Plan member

	Cash Lifestyle		BlackRock 30:70 Global Equity Index		Schroders Diversified Growth		M&G Property Fund		BlackRock Cash Fund		BlackRock over 5 yrs index linked gilts	
	10-year lifestyle defaulting to cash											
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
37	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
42	24,767	24,358	25,187	25,075	24,354	23,658	23,547	22,619	21,638	21,609	21,274	21,188
47	42,553	41,277	43,885	43,528	41,265	39,150	38,817	36,113	33,378	33,298	32,397	32,167
52	62,616	59,917	65,485	64,710	59,892	55,523	54,847	49,482	44,284	44,136	42,476	42,056
57	84,994	80,237	90,436	89,026	80,409	72,826	71,675	62,727	54,415	54,183	51,610	50,964
62	104,256	97,674	119,258	116,938	103,007	91,114	89,339	75,850	63,826	63,498	59,886	58,988
65	112,306	105,129	138,656	135,630	117,651	102,582	100,357	83,666	69,148	68,758	64,475	63,415

'Typical' deferred Plan member

	Cash Lifestyle		BlackRock 30:70 Global Equity Index		Schroders Diversified Growth		M&G Property Fund		BlackRock Cash Fund		BlackRock over 5 yrs index linked gilts	
	10-year lifestyle defaulting to cash											
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
40	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
45	4,512	4,407	4,621	4,592	4,406	4,227	4,199	3,963	3,716	3,708	3,625	3,603
50	5,090	4,855	5,338	5,271	4,853	4,468	4,408	3,926	3,452	3,438	3,285	3,246
55	5,742	5,348	6,166	6,051	5,345	4,722	4,627	3,890	3,206	3,187	2,976	2,924
60	6,282	5,734	7,122	6,946	5,887	4,990	4,857	3,854	2,979	2,955	2,697	2,633
65	6,361	5,739	8,228	7,973	6,484	5,274	5,099	3,819	2,767	2,740	2,444	2,372

³ <https://www.gov.uk/government/publications/reporting-costs-charges-and-other-information-guidance-for-trustees-and-managers-of-occupational-pension-schemes>

ANNUAL DC GOVERNANCE STATEMENT BY THE CHAIR OF TRUSTEES

'Typical youngest' active Plan member

	Cash Lifestyle		BlackRock 30:70 Global Equity Index	After all charges & costs deducted £	Schroders Diversified Growth	After all charges & costs deducted £	M&G Property Fund	After all charges & costs deducted £	BlackRock Cash Fund	After all charges & costs deducted £	BlackRock over 5 yrs index linked gilts	After all charges & costs deducted £
	10-year lifestyle defaulting to cash											
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
19	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
24	10,085	9,954	10,220	10,184	9,952	9,727	9,691	9,389	9,067	9,057	8,947	8,918
29	20,334	19,817	20,871	20,727	19,813	18,951	18,815	17,701	16,561	16,527	16,148	16,051
34	31,895	30,684	33,174	32,830	30,674	28,699	28,392	25,935	23,522	23,452	22,673	22,475
39	44,937	42,656	47,387	46,722	42,636	39,001	38,446	34,094	29,988	29,873	28,587	28,263
44	59,648	55,846	63,805	62,670	55,812	49,889	48,999	42,177	35,995	35,825	33,945	33,476
49	76,243	70,376	82,770	80,977	70,325	61,396	60,078	50,186	41,575	41,344	38,801	38,172
54	94,963	86,384	104,678	101,991	86,309	73,558	71,708	58,121	46,759	46,460	43,201	42,401
59	114,007	102,367	129,985	126,115	103,916	86,411	83,916	65,983	51,574	51,203	47,188	46,212
64	125,765	112,331	159,218	153,806	123,308	99,995	96,732	73,771	56,047	55,601	50,801	49,644
65	126,984	113,413	165,588	159,818	127,417	102,803	99,370	75,321	56,903	56,441	51,482	50,288

'Typical youngest' deferred Plan member

	Cash Lifestyle		BlackRock 30:70 Global Equity Index	After all charges & costs deducted £	Schroders Diversified Growth	After all charges & costs deducted £	M&G Property Fund	After all charges & costs deducted £	BlackRock Cash Fund	After all charges & costs deducted £	BlackRock over 5 yrs index linked gilts	After all charges & costs deducted £
	10-year lifestyle defaulting to cash											
Age	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £	Before charges £	After all charges & costs deducted £
20	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
25	1,128	1,102	1,155	1,148	1,101	1,057	1,050	991	929	927	906	901
30	1,272	1,214	1,334	1,318	1,213	1,117	1,102	982	863	860	821	811
35	1,435	1,337	1,541	1,513	1,336	1,180	1,157	973	802	797	744	731
40	1,619	1,473	1,781	1,736	1,472	1,248	1,214	964	745	739	674	658
45	1,827	1,623	2,057	1,993	1,621	1,319	1,275	955	692	685	611	593
50	2,060	1,788	2,376	2,288	1,786	1,393	1,338	946	643	635	554	534
55	2,324	1,970	2,745	2,627	1,967	1,473	1,405	937	597	589	502	481
60	2,543	2,112	3,171	3,015	2,166	1,556	1,475	928	554	546	455	433
65	2,575	2,113	3,663	3,461	2,386	1,645	1,548	920	515	506	412	390

Notes

1. Values shown are estimates and are not guaranteed.
2. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
3. Inflation is assumed to be 2.5% each year.
4. For active members only, future contributions are assumed to be paid from assumed age to 65 and increase in line with assumed earnings inflation of 2.5% each year.
5. Total contribution rates and pensionable salaries for the active member illustrations are assumed to be 9% and £31,000 respectively for the 'typical' active member and 9% and £19,000 respectively for the 'typical youngest' active member.
6. The starting pot sizes within the Plan are assumed to be £9,000 for the 'typical' active member, £4,000 for the 'typical' deferred member, £1,000 for the 'typical youngest' active member and £1,000 for the 'typical youngest' deferred member.
7. Starting ages within the Plan are assumed to be 37 for the 'typical' active member, 40 for the 'typical' deferred member, 19 for the 'typical youngest' active member and 20 for the 'typical youngest' deferred member.
8. The projected growth rate for each fund (before total charges and transaction costs are deducted), projected total charges figures and projected transaction costs are as follows. The projected transaction costs are the average of the transaction costs provided for the last five Plan years for the Veritas Global Focus Strategy Fund and for the last two Plan years for all other funds:

Fund	Projected growth rate	Projected total ongoing charges	Projected transaction costs ⁴
Cash Lifestyle (growth phase)	2.44% above inflation	0.26% per annum	0.24% per annum
BlackRock 30:70 Global Equity	2.93% above inflation	0.10% per annum	0.03% per annum
Schroders Diversified Growth	1.95% above inflation	0.41% per annum	0.45% per annum
M&G Property	0.98% above inflation	1.19% per annum	0.00% per annum
BlackRock Cash	1.49% <i>below</i> inflation	0.03% per annum	0.01% per annum
BlackRock Aquila over 5 years Index Linked Gilts	1.99% <i>below</i> inflation	0.09% per annum	0.03% per annum

⁴ Where the average transaction costs provided are below 0.00%, we have used 0.00% for the projected transaction cost (i.e. we have not allowed for a negative transaction cost over the long term (i.e. one that boosts net return, rather than detracting from it), even if the fund has experienced a negative transaction cost over the recent short-term, as it is not expected that transaction costs for the affected funds will always be negative).

Appendix C – assessing value for member and wider value for money

Categorising costs/charges and how these impact on our assessment

There is no legal definition of ‘good value’ and so the process of determining good value for members is a subjective one. We note that value for members does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the assessment of value to members.

In line with our legal duties and guidance issued by The Pensions Regulator, our first step has been to identify the services that members directly pay for, either through costs that only members pay, or costs that are shared with the Company. As indicated, the only costs that are paid by members are fund management charges (direct and indirect costs) and transaction costs for the investment funds used within the Plan.

For all other costs and charges, the Company bears the full cost. This covers such areas as:

- wider investment support and governance (e.g. the costs of regularly reviewing and updating funds available to members, etc);
- administration of the Plan (e.g. the costs of updating and maintaining member records, processing contributions and pension payments, dealing with member queries, etc);
- member communications (e.g. the costs of design and hosting of the skypensionplan.com website, the costs of producing and issuing annual benefit statements, etc); and
- the management and governance of the Plan (e.g. the expenses of the Trustees, the costs of legal/actuarial advisers and annual audit, etc).

As a result, the Trustees have undertaken two analyses:

1. First, we have assessed the ‘value for members’ arising from the benefits that members receive from the charges and transaction costs that they directly pay – this assessment is required by legislation but, for the Plan, is mainly limited to the performance and volatility of investment returns from funds within the Plan versus the charges members pay for holding those funds.
2. We have also assessed the overall ‘value for money’ offered to members of the Plan, with the aim of capturing not only the value from member-borne costs but also the broader elements of value that members receive from the employer-financed costs, as well as wider factors such as the generosity of the employer contribution rates above the automatic enrolment minimum contribution levels.

Overall approach

Assisted by our advisers, Buck, and in line with The Pensions Regulator’s guidance, we have taken the following approach:

1. We have collated information on services that members receive and the total costs that members pay, including transaction costs (where available);
2. We have assessed the scope and quality of the services that members receive, in line with criteria agreed by the Trustees in advance;
3. We have compared the value members receive from the services against the cost of those services; and
4. We have reflected on our key findings and suggested courses of action to maintain areas of good value and improve areas where value could be better.

Overall, the above approach ensures that we are comparing the level of charges in each fund with the levels of return they have delivered to members, as well as comparing the *costs* of membership (i.e. the charges) against the *benefits* of membership (i.e. the services provided by the Plan).

In attempting to compare these against other options available in the market, the Trustees have found that there are limited industry-wide benchmarks for each service area and so the Trustees have relied on the market knowledge of its advisers.

Preparation for the assessment

The Trustees received support from Buck, our advisers, around emerging best practice in undertaking assessments of value for members and wider value for money, including noting where this may differ from previous approaches taken, and also considered the statutory guidance.

A number of key decisions were made as part of these preparations:

- The Trustees will use a scoring system for each of the 'value for members' and 'value for money' assessments;
- Individual elements of service were given scores by considering the scope and quality of the services under those areas (as mentioned on the previous page, certain elements are not assessed under the statutory 'value for members' assessment as they are not directly paid for by members);
- Two overall weighted scores ranging from 0% to 100% were produced, one for 'value for member' and one for 'value for money';
- The Trustees agreed that any score below 50% represented 'poor' value, a score between 50% and 75% represented 'good' value and a score of 75% or over represented 'excellent' value (this is a change from previous years, where a five-point scale ranging from 'Excellent' to 'Poor' was used by the previous advisers); and
- Scores will be compared from year to year from now on, with a view to measuring and monitoring changes to the 'value for members' and wider 'value for money'.

Process followed for the assessment, including key factors considered

The Trustees, assisted by our advisers, then considered the services provided by the Plan in the areas where costs are borne (whether by members or by the employer), such as investment, communications, scheme management and governance, and administration. The scores for these areas were assessed by considering the scope and quality of the services in each area.

For each of the 'value for members' and wider 'value for money' assessments, different weighting factors were applied to reflect the different services being assessed.

For the 'value for members' analysis, we have assessed the historic returns and volatilities of the Plan funds versus their benchmark, and the charges and transaction costs of each fund:

- 60% of the 'value for members' score has been allocated to the historic return and volatilities of the Plan funds versus benchmarks, using each Fund's performance benchmark provided by the fund managers but a volatility benchmark selected by our advisers for this exercise; and
- 40% of the score has been allocated to the charges and transaction costs of each fund versus benchmark, using benchmarks selected by our advisers for this exercise.

The weighted average score has been produced by weighting the scores for each fund by the assets under management as at 30 June 2020 for that fund.

For the wider 'value for money' analysis, the assessment covers a larger set of services paid for by both members and the Company, including (but not limited to) the following:

Area	Examples
Investments / charges	The quality / governance of the default fund and alternative choices, the historic return and volatility of each Plan fund, charges and transaction costs for each Plan fund versus benchmark, etc
Communications / member support	Whether bespoke / tailored or event-driven communications are used, at-retirement communications / guides / modellers / support, access to pension freedoms, etc
Scheme management and governance	Understanding of membership characteristics / attitudes / needs, regular review of compliance with The Pensions Regulator's Codes of Practice, Trustee Knowledge and Understanding practices, use of expert advisers, etc
Administration / online services	Online fund values / switching, use of and performance against service level agreements, dedicated core administration team / helpline, etc
Company contribution to members' savings	The generosity of the Company's contributions over and above the members' and over and above the automatic enrolment minimum

While all of the factors above contribute to whether the Plan is well run, the Trustees believe that two of the biggest factors that can influence retirement outcomes are the level of contributions paid into the Plan and the level of investment performance net of fees.

As a result, 20% of the overall 'value for money' score is allocated to the generosity of the employer contributions, 30% is allocated to the quality and governance of the investment options and 10% to the competitiveness of fees and transaction costs.

The remaining 40% is allocated equally among the other categories, which cover whether the communications support good savings behaviours, whether the governance and oversight identifies and prioritises member interests and whether efficient processes are in place to carry out member instructions or transactions to a suitable quality and timescale.

The weighted average score has been produced by weighting the scores for each fund by the assets under management as at 30 June 2020 for that fund.

Explanation of the results of the assessment

Our conclusion that the Plan offers good value for members over the year to 30 June 2020 is based on positive factors such as:

- The weighted average ongoing charges figure of 0.25% per annum was rated 'excellent' as it compared favourably to the 0.4% per annum average charge for default funds within trust-based defined contribution pension schemes used for this exercise;
- A high number of the Plan's funds broadly met or outperformed their benchmarks, including the BlackRock Aquila 30:70 Global Equity fund, which is one of the two funds used in the growth phase of the default investment strategy and comprises over 40% of the total Plan assets under management at 30 June 2020; and
- The weighted-average volatility of returns outperformed the benchmarks used for this exercise over both 1-year and 5-year periods.

These were offset to an extent by factors such as:

- The other fund used in the growth phase of the default investment strategy, the Schroders Diversified Growth Fund, underperformed the manager's benchmark over 1-year and 5-year periods to 30 June 2020, although it had lower volatility of return over the same period when assessed against the volatility benchmarks selected for this exercise;
- For a small number of funds, the level of ongoing charges was higher than previously noted and against benchmark, most notably the M&G Property Fund; and
- The weighted average level of transaction costs over the Plan year was higher than the benchmarks selected for this exercise (in particular, the costs were high for the Schroders Diversified Growth Fund, Veritas Global Focus Strategy Fund and Schroders Climate Change Fund).

Our conclusion that the Plan offers good value for money over the year to 30 June 2020, taking into account employer-borne costs, is based on aspects such as:

Company contribution to members' savings

The Company contributions were assessed as good, due to factors such as:

- The contribution structure is relatively generous compared to the automatic enrolment minimum, with most members receiving employer contributions that are double the minimum employee contributions that they pay (6% employer compared to 3% employee).
- The maximum employer contribution is 9% if members pay 6% (employer contributions are 1.5 times employee contributions at this level), which the Trustees believe is competitive given benchmarking undertaken for the 2019 changes.

Investments / charges

The overall governance of the investment aspects of the Plan was assessed as excellent, due to:

- The range of alternative lifestyles and freestyle self-select funds available to members;
- The dedicated Investment Sub-Committee, which meets quarterly and reports to the Trustee board on investment matters, including the ongoing monitoring of the default investment strategy, the lifestyle/freestyle fund range and the individual managers;
- The fact that the suitability of the default investment strategy is assessed with reference to the membership profile of the Plan, with the last membership profile assessment performed in 2018;
- The work being undertaken to review the default investment strategy and other investment options and to incorporate environmental, social and governance (ESG) matters into the Plan, although it was noted that the default investment strategy review commenced in the Plan year to 30 June 2019 was completed in late 2020.

The charges were assessed as excellent overall, due in large part to the competitive fees obtained for the passively-managed funds. This was offset to an extent by the lower score for the transaction costs, due to the high transaction costs for certain funds and the resulting drag on performance for members.

Communications / member support

The level of communications and member support in the Plan were assessed as good, due to factors like:

- Members receive communications that aid member decision-making (including a bespoke annual benefit statement, bespoke Sky-branded announcements on major Plan changes, etc);
- Members have access to an online Member Portal which allows them to view their current fund value and investment choices, make investment changes, access their annual benefit statement and transaction history, update their personal details and make use of modelling and decision-making tools;
- The Trustees have put in place the skypensionplan.com website where members can access information to understand more about the Plan, their investment and retirement choices, contact information for the Plan's administrators and to access useful resources and documents about the Plan. It was noted, however, that the website is currently under review and some of the information was out-of-date and/or hard to navigate to (for example, the cost/charges illustrations) as at 30 June 2020.

The at-retirement support and tools also contributed to the score (including access to at-retirement support from Hub) although flexi-access drawdown is not facilitated within the Plan. Members also receive guidance and support from the in-house pensions team, who provide support for members at/in retirement and who also host retirement seminars / webinars.

Administration

The administration within the Plan was assessed as excellent, due to the following:

- Members are able to receive a wide range of administration / online services (e.g. the Member Portal, the dedicated helpline manned by a ring-fenced administration team, etc), which compares well to other options in the market;
- The Trustees review the service levels of the Plan's administrator on a quarterly basis, with a member of the administration team attending meetings to present a combination of management information reports and summary dashboards that are used to assess performance, identify trends and address key issues; and
- The MI reports feature information on the accuracy and timescale SLAs for the core financial transactions. The administrator met the SLAs overall over the Plan year (92% versus the target of 90%), although the performance over the last quarter to 30 June 2020 was 84% versus the target of 90%.

Scheme management and governance

The Plan's scheme management and governance was assessed as good, due to:

- The main Trustee board meets around four times a year, supported by the Investment Sub-Committee;
- We make use of advisers and service providers, with whom we have clear contracts and whose fees and performance are assessed on a regular basis. The Trustees feel that their knowledge and understanding is improved by the insights into legislative / best-practice requirements that the advisers provide, but also feel able to challenge the advice and ask questions to broaden the understanding of the Trustee board;
- The Trustees have, in the past, reviewed their TKU, their Board Effectiveness and their risk management framework and make use of these to focus on areas that may need further attention to improve outcomes for members or address any issues. For instance, it was noted that not all of the Trustees have completed the relevant modules of The Pensions Regulator's Trustee Toolkit and the Trustees have not put in place a regular member feedback process.

Follow-on actions and investigations

The Trustees plan to perform further investigations, taking action where appropriate, over the year to 30 June 2021. The Trustees' focus will be on maintaining the good value for members and identifying if further improvements can be made. Over the year to 30 June 2021, the Trustees will:

- Continue monitoring the impact of the COVID-19 pandemic on the Plan, particularly on ongoing investment returns, administration standards and member support service levels of the new administrators, Buck, and the ability of the Company to pay contributions on time and fulfil other financial obligations;
- Continue updating the Plan's website, skypensionplan.com, to incorporate the most up-to-date information (e.g. charges and transaction cost information; 'value for member' and 'value for money' assessments; default strategy information and the Statement of Investment Principles; links to and information held on fund manager micro-sites; links to the new Member Portal; etc) and make the Chair's Statement, cost/charges illustrations and associated information easier to find;
- Review the modelling tools and online services offered to members by the new administrators, Buck, and the usage of (and feedback on) the Member Portal by Plan members, as well as monitoring the regular reporting on service levels and processing of financial transactions by Buck;
- Review how analysis or understanding of members (and their views/feedback) is obtained and fed into the Trustees' decision-making;
- Review the communications issued to members (including the format and content of annual benefit statements) and consider introducing a communications policy and plan (covering, for instance, the format and frequency of member communications and whether to introduce a comprehensive member booklet, tailor communication messages/approaches to different segments of the membership, utilise alternative media, etc);
- Review the training plan for the Trustees, ensuring that the Trustee Toolkit is completed by all Trustees, an 'offsite' training day undertaken over the Plan year and dedicated training time utilised at quarterly Trustees' meetings and continue to seek advice from the legal advisers on matters of interpretation;
- Build upon the governance improvements arising from the previous Board Effectiveness review and Business Plan by, for instance, considering reviewing and maintaining strategic and operational objectives and measuring performance against these objectives, undertaking another review of how the Plan complies with The Pensions Regulator's Code of Practice no.13 and supporting guidance, etc;
- Finalise the review of the default investment strategy and update the Statement of Investment Principles and any associated documents as necessary; and
- Continue liaising with the fund managers to ensure that complete and accurate disclosure of transaction costs is provided, in line with FCA rules, and that this information is communicated clearly and consistently across all Plan documentation and communications.

The Trustees will also consider discussing this analysis with the Company to obtain their views.