

**The Chair's Statement
Defined Contribution (DC)
Scheme Governance
1 July 2018 – 30 June 2019**

This Statement has been produced by Capital Cranfield Pension Trustees Limited (“CCPTL”) for the Commonwealth Bank of Australia (UK) Staff Benefits Scheme (the “Scheme”) and sets out how the Scheme has met the governance standards that apply to occupational pension schemes that provide money purchase benefits during the year, in line with Regulation 17 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

CCPTL replaced the Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company (“the Trustee”), who were appointed as Trustee of the Scheme throughout the year to 30 June 2019 to which this Statement relates, by Deed of Resignation and Amendment on 9 August 2019. CCPTL has been appointed as sole Trustee to the Scheme.

INVESTMENT

Default investment arrangement

Members of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement. A copy of the Trustee's current Statement of Investment Principles which covers the default investment arrangement follows this Statement and is also held on the Bank's website at: <https://www.commbank.com.au/about-us/our-company/international-branches/europe.html>.

The Trustee believes that it is in the best interests of members to operate a default option which manages the principal investment risks that members face during their membership of the DC Section. Following the pension flexibilities introduced in the 2014 Budget, the Trustee concluded that it was no longer appropriate to offer a default strategy that targeted an annuity purchase at the point of retirement.

Since January 2016, the Trustee has employed the Aberdeen Standard Life Enhanced Diversified Growth Fund (EDGF), a multi-asset fund, as the default arrangement throughout the whole savings period. This took account of the return profile of the investments within the default option and the DC charge cap, as well as pension flexibilities, and sought to meet the Trustee's investment objectives by offering growth opportunity alongside management of downside risk through diversification. This was believed to be appropriate to meet the needs of most members following a review of the default option in May 2015. Following a continued period of underperformance of the default investment fund relative to benchmarks, peers and long-term DC objectives, the Trustee commissioned a review of the Scheme's default investment fund alongside a review of the overall strategy that is applicable in the members' entire savings period. The review is currently underway having been commissioned in September 2019.

Other investment options

The Trustee also made available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments.

The Ongoing Charges Figure (OCF) for each of the non-default funds ranges between 0.1% and 1.25% (see overleaf) and information for each fund is available via the BenPal member portal which is available to all active and deferred members. This is also published in the annual newsletter which is issued to all members via BenPal or by post to those members who have opted out of electronic communications.

Charges and transaction costs

The charges and transaction costs borne by DC scheme members are assessed to the extent they represent good value for money for members. These costs are not limited to the ongoing charges on member funds, but also include trading costs incurred within such funds. Details of the charges and transaction costs within this Statement are presented as a percentage of the value of benefits held by each member. The Trustee is satisfied that investment costs are in line with expectations for the asset classes they invest in.

Ongoing Charges Figure (OCF)

The OCF, previously known as the Total Expense Ratio, includes the Annual Management Charge and a variety of other operating costs to cover the cost of running the fund. It includes administrative costs such as maintaining records, custody and audit fees, producing reports and calculating the daily unit price, as well as the research that goes into deciding what assets to buy and sell. Whilst all the Annual Management Charges are fixed, the additional charges can vary from day to day.

The OCF for the Aberdeen Standard Life Enhanced Diversified Growth Fund was 0.506% during the year (the maximum OCF allowed for a default fund is 0.75%).

Transaction costs

Transaction costs can arise when the:

- fund manager buys or sells part of a fund's portfolio of assets; or
- platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on how each fund is invested and prevailing market conditions. Direct transaction costs include custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes) while indirect transaction costs are incurred through bid-offer spreads.

Direct transaction costs are taken into account when the funds' unit prices are calculated. This means that transaction costs are not readily visible, but will be reflected in a fund's investment performance.

The FCA requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the values of assets immediately before and after a transaction has taken place. These costs can be negative in some cases if the value falls during the transition.

These transaction costs do not include indirect transaction costs that members may incur from buying or selling units in any of the funds.

The transaction costs borne by members in the default arrangement were 0.62% during the year.

Table of charges and transactions costs

The OCF and transactions costs applicable to the funds offered by the Scheme were:

Fund	Ongoing Charges Figure (OCF)		Transaction costs	
	% p.a. of the amount invested	£ p.a. per £1,000 invested	% p.a. of the amount invested	£ p.a. per £1,000 invested
Stewart Investors - Asia Pacific Leaders	0.880	8.80	0.153	1.53
Stewart Investors - Worldwide Equity	1.250	12.50	0.121	1.21
Stewart Investors - Global Emerging Markets Leaders	0.890	8.90	0.290	2.90
Stewart Investors - Worldwide Sustainability	0.890	8.90	0.205	2.05
First State - Global Listed Infrastructure	0.780	7.80	0.330	3.30
First State - Global Property Securities	0.800	8.00	0.140	1.40
First State - Greater China Growth	1.050	10.50	0.184	1.84
L&G - Cash	0.125	1.25	0.004	0.04
L&G - Global Equity Fixed Weights (50:50) Index	0.183	1.83	-0.007	-0.07
L&G - Over 5 Years Index-Linked Gilts Index	0.100	1.00	0.031	0.31
L&G - UK Equity Index	0.134	1.34	-0.022	-0.22
L&G - Ethical UK Equity Index	0.201	2.01	0.012	0.12
M&G - All Stocks Corporate Bonds	0.310	3.10	0.031	0.31
Baillie Gifford - Global Alpha	0.590	5.90	0.100	1.00
Standard Life - Global Absolute Return Strategies	0.706	7.06	0.358	3.58
Standard Life - Enhanced Diversified Growth Fund	0.506	5.06	0.620	6.20

Source: Investment Managers

Notes:

The Trustee requested information for the year ended 30 June 2019. Whilst changes to processes required from managers to provide the transaction costs have started to be implemented, there has been a slow and mixed response despite several requests to the managers. In particular:

- Charges and transaction costs for Stewart Investors and First State Investments are over the 12 month period to 31 July 2018, as the managers were unable to provide the information for the 12 month period to 30 June 2019. The managers stated that this would be available by the end of Q4 2019.
- Charges and transaction costs for M&G are over the 12 month period to 31 March 2019, as the managers were unable to provide the information for the 12 month period to 30 June 2019. M&G expect to provide the information by the end of Q4 2019, similar to last year.
- Charges and transaction costs for L&G are over the 12 month period to 31 March 2019, as the managers were unable to provide the information for the 12 month period to 30 June 2019. L&G expect the data for Q2 2019 to become available by the end of Q4 2019.
- Charges and transaction costs for Aberdeen Standard Life are over the 12 month period to 31 March 2019, as the managers were unable to provide the information for the 12 month period to 30 June 2019. Aberdeen Standard Life expect the data for Q2 2019 to become available by the end of Q4 2019.

The negative transaction costs arise as a result of the prescribed calculation methodology, which allows for the 'delay cost' that takes the difference between mid-market price of an asset immediately before the order is placed in the market and the price at which the deal is struck. A negative transaction cost would result in a positive additional return for the fund.

The Trustee notes that a direct comparison of transaction costs between the managers would not be entirely appropriate due to the different time periods over which the transaction costs have been provided. Once managers are able to provide information on like for like time periods, further assessment in this area will be done,

Illustrations of the impact of charges and costs

The following tables show the potential impact over time of the costs and charges borne by members on projected values at retirement in *today's money* for typical members over a range of ages. They do not need to be reduced further for the effect of future inflation. The illustrations have been prepared in line with the statutory guidance, however transaction costs are based on the data readily available from the managers and are not an average of the previous 5 years.

The Scheme is a non-contributory Scheme with employer contributions of either 10% or 12% for active members.

All three scenarios presented assume:

- The starting DC pot size is £43,000. Please note this represents the current average pot size for a member of the Scheme. An individual member's pot may be higher or lower than this; and
- The rate of inflation is assumed to be 2.5% each year.

The transaction costs and charges assumed for each fund are the current charges as shown in the Table of charges and transaction costs shown on page 3. Where transaction costs over the year were negative, we have used a transaction cost of zero for the illustrations.

Please note that these illustrated values:

- Are estimates using assumed rates of future investment returns and inflation;
- Are not guaranteed; and
- May not prove to be a good indication of how your own savings might grow.

The illustrations have been carried out for the following five funds, which represent those funds with the largest amounts invested across the Scheme. The return assumptions used for these funds are also shown. These are consistent with the Statutory Money Purchase Illustrations included as part of members' annual benefit statements.

Fund	Return assumption
Standard Life Aberdeen Enhanced Diversified Growth Fund (default arrangement)	5.1% pa
Baillie Gifford Global Alpha Growth Fund	6.5% pa
Legal & General Investment Managers Global Equity Fixed Weights (50:50) Index Fund	6.5% pa
Legal & General Investment Managers UK Equity Index Fund	6.5% pa
Stewart Investors Global Emerging Markets Leaders	6.5% pa

Scenario 1 - Active member with total contributions of £500 per month being paid into the Scheme

Years invested	Standard Life Aberdeen – Enhanced Diversified Growth Fund (default arrangement)		Baillie Gifford Global Alpha Growth Fund		Legal & General Investment Managers Global Equity Fixed Weights (50:50) Index Fund		Legal & General Investment Managers UK Equity Index Fund		Stewart Investors Asia Pacific Leaders Fund	
	Before costs and charges	After costs and charges are taken	Before costs and charges	After costs and charges are taken	Before costs and charges	After costs and charges are taken	Before costs and charges	After costs and charges are taken	Before costs and charges	After costs and charges are taken
	£	£	£	£	£	£	£	£	£	£
0	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000
1	50,195	49,630	50,839	50,488	50,839	50,749	50,839	50,782	51,206	50,677
2	57,730	56,507	59,144	58,374	59,144	58,947	59,144	59,019	59,960	58,792
5	82,496	78,687	87,089	84,589	87,089	86,444	87,089	86,681	89,815	85,965
10	131,817	121,297	145,300	137,941	145,300	143,381	145,300	144,084	153,657	142,047
15	192,888	171,906	221,292	205,707	221,292	217,187	221,292	218,688	239,635	214,466
20	267,976	231,744	319,598	291,077	319,598	312,013	319,598	314,779	354,290	307,163
25	359,742	302,216	445,819	397,889	445,819	432,952	445,819	437,634	505,982	424,957
30	471,311	384,924	606,875	530,753	606,875	586,247	606,875	593,738	705,382	573,734
35	606,345	481,699	811,295	695,198	811,295	779,541	811,295	791,048	966,096	760,667
40	769,135	594,625	1,069,588	897,849	1,069,588	1,022,181	1,069,588	1,039,323	1,305,455	994,497

Scenario 2 - Active member with total contributions of £1,000 per month being paid into the Scheme

Years invested	Standard Life Aberdeen – Enhanced Diversified Growth Fund (default arrangement)		Baillie Gifford – Global Alpha Growth Fund		Legal & General Investment Managers – Global Equity Fixed Weights (50:50) Index Fund		Legal & General Investment Managers – UK Equity Index Fund		Stewart Investors – Asia Pacific Leaders Fund	
	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £
0	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000
1	56,273	55,640	56,958	56,565	56,958	56,857	56,958	56,894	57,349	56,756
2	70,195	68,762	71,780	70,878	71,780	71,549	71,780	71,634	72,693	71,328
5	116,104	111,176	121,862	118,642	121,862	121,032	121,862	121,337	125,271	120,321
10	208,050	192,960	226,949	216,490	226,949	224,226	226,949	225,224	238,594	222,153
15	322,582	290,487	365,144	341,613	365,144	358,958	365,144	361,220	392,396	354,588
20	464,103	406,198	544,977	500,120	544,977	533,076	544,977	537,419	598,757	525,097
25	637,797	542,880	777,008	699,367	777,008	756,222	777,008	763,791	873,129	742,822
30	849,748	703,719	1,074,284	948,199	1,074,284	1,040,222	1,074,284	1,052,599	1,235,252	1,018,933
35	1,107,100	892,350	1,452,908	1,257,232	1,452,908	1,399,568	1,452,908	1,418,911	1,710,313	1,367,066
40	1,418,220	1,112,920	1,932,733	1,639,196	1,932,733	1,851,992	1,932,733	1,881,211	2,330,419	1,803,839

Scenario 3 - Member who has left the Scheme with no further contributions being paid

Years invested	Standard Life Aberdeen – Enhanced Diversified Growth Fund (default arrangement)		Baillie Gifford Global Alpha Growth Fund		Legal & General Investment Managers Global Equity Fixed Weights (50:50) Index Fund		Legal & General Investment Managers UK Equity Index Fund		Stewart Investors Asia Pacific Leaders Fund	
	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £	Before costs and charges £	After costs and charges are taken £
0	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000	43,000
1	44,118	43,621	44,720	44,411	44,720	44,641	44,720	44,670	45,064	44,532
2	45,265	44,252	46,509	45,869	46,509	46,345	46,509	46,405	47,227	46,119
5	48,888	46,198	52,316	50,536	52,316	51,856	52,316	52,025	54,359	51,227
10	55,583	49,634	63,651	59,393	63,651	62,537	63,651	62,944	68,720	61,028
15	63,194	53,325	77,441	69,801	77,441	75,417	77,441	76,156	86,874	72,704
20	71,848	57,291	94,218	82,034	94,218	90,950	94,218	92,139	109,823	86,615
25	81,687	61,551	114,631	96,411	114,631	109,682	114,631	111,478	138,835	103,186
30	92,873	66,129	139,466	113,307	139,466	132,272	139,466	134,876	175,512	122,928
35	105,591	71,047	169,682	133,165	169,682	159,515	169,682	163,184	221,878	146,448
40	120,050	76,331	206,444	156,503	206,444	192,369	206,444	197,434	280,492	174,467

ADMINISTRATION

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 the DC section are processed promptly and accurately.

These transactions are undertaken on the Trustee's behalf by the Scheme administrator, JLT Benefit Solutions Limited ("JLT") and its investment managers, namely Legal & General Insurance Management (L&G), Standard Life, First State Investment (UK) Limited (incorporating Stewart Investors), Baillie Gifford and M&G. The Trustee has reviewed the processes and controls implemented by those organisations as audited by independent internal controls audits and has concluded them to be suitably designed to achieve these objectives. The processes adopted by JLT to help meet the SLA include a dynamic checklist, central financial control team which is separate to the administration team, daily monitoring of bank accounts and four eyes checking of investment and banking transactions. The Trustee also received the annual assurance report on Internal Controls (AAF 01/06 and ISAE 3402) from JLT.

The Trustee has agreed service levels with JLT and receives quarterly reports which cover all activity undertaken but specifically the accuracy and timeliness of all core transactions. This allowed the Trustee to monitor JLT's compliance with its agreed Service Level Agreement (SLA) at its regular Administration Sub Committee meetings and raise any issues.

The Trustee continued to liaise closely with JLT about administration issues throughout the year, with a particular emphasis on investment switches as there was a flow of member complaints in this area. In August 2018, the administration service was relocated from JLT's Bracknell office to the Manchester office in order to minimise future issues. Bi-weekly meetings between representatives of the Trustee, FSI (the participating employer with the largest number of active employees) and JLT continued throughout the majority of the year to ensure that any specific member issues were resolved. Where a loss to a member was identified, the member was compensated to rectify the shortfall. As a result of discussions, a new DC switching guide was produced for members and made available via BenPal to assist their understanding of the processes and timings. There have been no issues with the accuracy of the service provided and no systemic issues have been identified.

In light of the actions taken, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

No charge was made to members for administration services delivered in line with statutory requirements, as these were met by the Principal Employer via expense contributions. Occasionally, members will be asked to pay for specific requests, where they fall outside the Trustees' contract or are non-statutory.

COMMUNICATION

DC Members who are actively contributing or have benefits preserved in the Scheme are provided with access to BenPal, an online portal which provides details of their retirement savings in the Scheme, including contributions paid, current investment allocations as well as individual and more generic information about Scheme benefits and a savings modeller. The annual newsletter produced to highlight key issues to members is published on the site along with any *ad hoc* announcements. Those who do not wish to receive communications online are given the opportunity to opt out and receive paper copies of communications. Members are also able to vary any AVCs which they pay into the Scheme and instruct investment fund switches. JLT as the Scheme's professional third party Scheme Administrator communicates directly with members by post in relation to key events for individuals, such as retirement. All communication costs were met by the Principal Employer during the year.

VALUE ASSESSMENT

The Trustee assesses the extent to which any charges and transaction costs which are borne by members represent good value for members. This includes:

- A comparison of the level of charges against the benefits delivered to members;
- Ongoing review of the performance of the Scheme's investment funds in the context of their objectives; and

- A review of the non-financial benefits of the Scheme, including the quality of the administration service and communications.

The Scheme is non-contributory and offers members a wide variety of asset classes via funds whose charges are considered to be broadly competitive in the market. This has been achieved by undertaking detailed selection processes and undertaking ongoing review, All administration costs are met by the Commonwealth Bank of Australia. The Trustee therefore believes that overall, the Scheme does offer its members value for money.

TRUSTEE'S KNOWLEDGE AND UNDERSTANDING

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, relevant principles relating to the funding of occupational pension schemes, relevant principles relating to investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

During the year, the Board of Trustee Directors comprised six individuals from a variety of professional backgrounds with expertise in a number of key areas such as investment, risk, accounting and pensions governance. There had been no changes to the Trustee Director appointments since 2016. These Trustee Directors received advice and regular briefings from professional advisers, particularly where pertinent to discussions during the year, including liability driven investment, flexible apportionment arrangements, the Pension Protection Fund and conflict management. All Trustee Directors had completed the Pension Regulator's Trustee Toolkit and took personal responsibility for keeping themselves up to date with relevant developments. In 2017, all Trustee Directors had completed a self-assessment questionnaire to identify any knowledge gaps and further information was provided on an individual basis as necessary. All Trustee Directors were members of the PMI Trustee Group which provides access to articles on topical issues and seminars. The performance of the Trustee Board was assessed regularly by reference to progress against its strategic business plan and scheme calendar and each sub-committee considered its key priorities for the forthcoming year at each meeting. This included consideration of forthcoming scheme specific and wider pensions issues and any support needed to properly exercise the Trustee's duties.

GOVERNANCE

Following our recent appointment as Trustee of the Scheme, having engaged with the former Trustee and current advisers, we are satisfied that the 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 trust-based schemes providing money purchase benefits; and regulatory guidance for defined contribution schemes

Based on our assessment, we believe that the former Trustee who was appointed for the year to 30 June 2019 had adopted the standards of practice set out in the DC code and DC regulatory guidance to support better outcomes for members at retirement.

This Chair's statement regarding DC governance was approved by the Trustee on 5 December 2019 and signed on its behalf by:



Peter Thompson
On behalf of Capital Cranfield Pension Trustees Limited