

The Chair's Statement Money Purchase Scheme Governance 1 July 2019 – 30 June 2020

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”), the preceding Trustee of the Scheme, by Deed of Retirement and Appointment on 9 August 2019. CCPTL has been appointed as sole Trustee to the Scheme.

INVESTMENT

Default investment arrangement

Members of the Money Purchase Category of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default investment strategy. A copy of the current Statement of Investment Principles which covers the default investment strategy 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>

CCPTL 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 Money Purchase Category of the Scheme. 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.

From January 2016, the Trustee employed the Aberdeen Standard Life Dynamic Multi Asset Growth Pension Fund (formerly known as the Enhanced Diversified Growth Fund), 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 investment strategy 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, CCPTL commissioned a review of the default investment strategy alongside a review of the overall strategy that is applicable in the members' entire savings period. The review was presented to CCPTL at their meeting on 16 December 2019 and recommended a number of changes to the default investment strategy. These included:

- The introduction of a glidepath with a growth phase (defined as being more than 15 years from retirement), a consolidation phase (between 15 and 3 years prior to retirement) and a pre-retirement phase (the last 3 years prior to retirement);
- An allocation of 100% passively managed global equities in the growth phase, including allowance for Environmental, Social and Governance (ESG) factors;
- An inclusion of diversification within the consolidation phase to reduce risk and offer downside protection when equity markets fall in the form of two multi asset funds; and
- An allocation of cash in the pre-retirement phase to reflect that most members, with relatively large pot sizes, will likely access their pots via flexible drawdown whilst taking advantage of their 25% tax free cash allowance.

CCPTL, with approval from the Bank, accepted the recommendations and to proceed with the changes on 17 June 2020, although implementation has been deferred until the transfer out of First State members has been finalised.

Other investment options

CCPTL also made available a range of funds which may be chosen by members as an alternative to the default investment strategy. 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 1.1% (see below) 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 Money Purchase Category 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. CCPTL 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 Dynamic Multi Asset Growth Pension 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 Financial Conduct Authority (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 0.853% during the year.

Table of charges and transaction costs

The OCF and transaction 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	0.290	2.90
Stewart Investors - Worldwide Equity	1.10	11.00	0.170	1.70
Stewart Investors - Global Emerging Markets Leaders	0.90	9.00	0.220	2.20
Stewart Investors - Worldwide Sustainability	0.91	9.10	0.260	2.60
First State - Global Listed Infrastructure	0.790	7.90	0.430	4.30
First State - Global Property Securities	0.840	8.40	0.320	3.20
First State - Greater China Growth	1.070	10.70	0.190	1.90
L&G - Cash	0.125	1.25	-0.003	-0.03
L&G - Global Equity Fixed Weights (50:50) Index	0.183	1.83	0.010	0.10

L&G - Over 5 Years Index-Linked Gilts Index	0.100	1.00	0.132	1.32
L&G - UK Equity Index	0.131	1.31	-0.026	-0.26
L&G - Ethical UK Equity Index	0.206	2.06	0.008	0.08
M&G - All Stocks Corporate Bond Fund	0.310	3.10	0.030	0.30
Baillie Gifford - Global Alpha	0.590	5.90	0.090	0.90
Standard Life - Global Absolute Return Strategies	0.706	7.06	0.660	6.60
Standard Life ASI Dynamic Multi Asset Growth Pension Fund (Formerly Standard Life - Enhanced Diversified Growth Fund)	0.506	5.06	0.853	8.53

Source: Investment Managers

Notes:

CCPTL requested information for the year ended 30 June 2020. Whilst changes to processes required from managers to provide the transaction costs have been embedded, CCPTL has still been unable to receive complete data. In particular:

- Charges and transaction costs for Stewart Investors and First State Investments are over the 12 month period to 31 July 2019, as the managers were unable to provide the information for the 12 month period to 30 June 2020. The managers stated that this would be available by the end of Q4 2020.

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.

CCPTL notes the transaction costs for the default arrangement are the highest incurred across the fund range.

Illustrations of the impact of charges and costs

The following tables show the potential impacts of the costs over time 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 Money Purchase Category of 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 £46,000. 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 across pages 3 and 4. 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 an individual member's 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 ASI Dynamic Multi Asset Growth Pension Fund (default arrangement)	3.8% pa
Baillie Gifford Global Alpha Growth Fund	6.2% pa
Legal & General Investment Managers Global Equity Fixed Weights (50:50) Index Fund	6.2% pa
Legal & General Investment Managers UK Equity Index Fund	6.2% pa
Stewart Investors Asia Pacific Leaders Fund	6.2% pa

Scenario 1 - Active member with total contributions of £500 per month (10% contribution) being paid into the Scheme

Years invested	Standard Life ASI Dynamic Multi Asset Growth Pension 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	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000
1	52,547	51,898	53,693	53,368	53,693	53,601	53,693	53,630	53,693	53,134
2	59,323	57,937	61,811	61,100	61,811	61,609	61,811	61,673	61,811	60,591
5	81,087	76,937	88,906	86,625	88,906	88,253	88,906	88,462	88,906	85,014
10	122,565	111,763	144,486	137,879	144,486	142,578	144,486	143,188	144,486	133,318
15	171,377	150,977	215,758	201,972	215,758	211,740	215,758	213,021	215,758	192,659
20	228,593	195,141	306,393	281,528	306,393	299,083	306,393	301,409	306,393	265,079
25	295,430	244,888	420,857	379,662	420,857	408,644	420,857	412,521	420,857	352,964
30	373,269	300,934	564,572	500,062	564,572	545,289	564,572	551,396	564,572	459,096
35	463,677	364,085	744,116	647,096	744,116	714,877	744,116	724,115	744,116	586,719
40	568,434	435,252	967,456	825,927	967,456	924,455	967,456	938,010	967,456	739,609

Scenario 2 - Active member with total contributions of £1,000 per month (12% contribution) being paid into the Scheme

Years invested	Standard Life ASI Dynamic Multi Asset Growth Pension 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	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000
1	58,511	57,823	59,725	59,381	59,725	59,628	59,725	59,659	59,725	59,134
2	71,472	69,928	74,240	73,450	74,240	74,016	74,240	74,088	74,240	72,884
5	113,181	108,006	122,888	120,062	122,888	122,080	122,888	122,339	122,888	118,063
10	192,951	177,791	223,394	214,260	223,394	220,759	223,394	221,601	223,394	207,934
15	287,181	256,350	353,215	332,836	353,215	347,286	353,215	349,178	353,215	319,004
20	398,000	344,808	519,295	480,837	519,295	508,016	519,295	511,607	519,295	455,247
25	527,824	444,433	730,086	664,256	730,086	710,623	730,086	716,806	730,086	621,303
30	679,401	556,655	995,861	890,201	995,861	964,373	995,861	974,353	995,861	822,595
35	855,851	683,088	1,329,091	1,167,093	1,329,091	1,280,429	1,329,091	1,295,818	1,329,091	1,065,445
40	1,060,713	825,552	1,744,899	1,504,895	1,744,899	1,672,232	1,744,899	1,695,161	1,744,899	1,357,223

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

Years invested	Standard Life ASI Dynamic Multi Asset Growth Pension 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	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000	46,000
1	46,583	45,974	47,660	47,355	47,660	47,574	47,660	47,602	47,660	47,135
2	47,174	45,947	49,381	48,751	49,381	49,202	49,381	49,259	49,381	48,299
5	48,992	45,868	54,924	53,188	54,924	54,427	54,924	54,586	54,924	51,964
10	52,179	45,736	65,579	61,499	65,579	64,397	65,579	64,774	65,579	58,702
15	55,573	45,604	78,301	71,109	78,301	76,194	78,301	76,865	78,301	66,313
20	59,187	45,473	93,491	82,220	93,491	90,151	93,491	91,212	93,491	74,911
25	63,037	45,343	111,628	95,067	111,628	106,666	111,628	108,236	111,628	84,624
30	67,137	45,212	133,284	109,922	133,284	126,205	133,284	128,439	133,284	95,597
35	71,504	45,082	159,140	127,098	159,140	149,325	159,140	152,412	159,140	107,992
40	76,155	44,953	190,013	146,958	190,013	176,679	190,013	180,860	190,013	121,994

ADMINISTRATION

Processing Scheme transactions

CCPTL as the Trustee of the Scheme 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 Money Purchase Category are processed promptly and accurately.

These transactions are undertaken on CCPTL's behalf by the Scheme administrator, Mercer Limited ("Mercer") 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. CCPTL 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 Mercer to help meet the Service Level Agreement (SLA) include a dynamic checklist, a 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. CCPTL also received the annual assurance report on Internal Controls (AAF 01/06 and ISAE 3402) from Mercer.

CCPTL has agreed service levels with Mercer and receives quarterly reports which cover all activity undertaken but specifically the accuracy and timeliness of all core transactions. This allows CCPTL to monitor Mercer's compliance with its agreed SLA at its regular meetings and raise any issues.

CCPTL liaises closely with Mercer about any administration issues that arise throughout the year. Clearly, Covid-19 has had an impact on certain aspects of service delivery and Mercer are prioritising key tasks of member payments and contribution processing in line with guidance issued by the Pensions Regulator. Despite these challenging times SLAs have remained above their target rate of 95%. CCPTL continues to take a close interest in member transactions in view of previous issues highlighted in last year's report.

In light of the actions taken, CCPTL 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 contractual requirements or are non-statutory.

COMMUNICATION

Members of the Money Purchase Category 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. Mercer 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

CCPTL 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 an ongoing review. All administration costs are met by the Commonwealth Bank of Australia. CCPTL therefore believes that overall, the Scheme offers 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:

- Be conversant with the Trust Deed and Rules of the Scheme, the Scheme's Statement of Investment Principles ("SIP") and any other documents recording policies adopted by the Trustee relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly exercise his or her functions as a trustee, knowledge and understanding of the law relating to pensions and trusts and the principles related to the investment of assets for occupational pension schemes.

Up to 9 August 2019, the Board of the Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited comprised of six Trustee Directors 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. Since 9 August 2019, CCPTL has been the Trustee of the Scheme.

The Trustee, and Trustee Directors previously, have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below:

- All of the six former Trustee Directors had completed the Pension Regulator's "Trustee Toolkit" and took personal responsibility for keeping themselves up to date with relevant developments. All Trustee Directors were members of the PMI Trustee Group which provides access to articles on topical issues and seminars,
- As a professional trustee, CCPTL is expected to maintain a higher level of knowledge and understanding than non-professional trustees. CCPTL has strict ongoing "continuous professional development" (CPD) requirements for its professional trustees. CCPTL hosts regular, usually quarterly, meetings which all its professional trustees are expected to attend, these include CPD as well as business content. Individual professional trustees are expected to ensure that they carry out enough CPD to keep themselves fully up to date with developments as well as to meet the CPD requirements of the Association of Professional Pension Trustees (APPT).
- Training is provided as and when required and is determined by the Trustee's self-evaluation. Advisers provide advice and regular briefings, particularly where pertinent to discussions during the year. The Trustee's advisers raise any changes in governance requirements and other relevant matters as they become aware of them; and
- The Trustee has access to copies of, and is familiar with, the current governing documentation for the Scheme. This includes the Trust Deed and Rules (together with any amendments), SIP and the Trustee's current policies. The Trustee refers to the Trust Deed and Rules as part of all aspects of the Scheme's operations including when deciding to make any changes to the Scheme. The SIP is formally reviewed at least every three years (it was last reviewed in September 2020) and when making any changes to the Scheme's investments.

The performance of the Trustee Board was assessed regularly by reference to progress against the Scheme calendar. The Scheme calendar covers forthcoming scheme specific and wider pensions issues. The Trustee considers where support is needed to properly exercise its duties on any issues.

The Trustee assigned to the Scheme by CCPTL are fully accredited members of the APPT. This can be confirmed by visiting the APPT website at www.appt.org.uk. CCPTL are therefore subject to their CPD requirements which are checked each year; the key requirement is that they each have to undertake a minimum of 25 hours' CPD in each calendar year.

The Trustee has appointed suitably qualified and experienced legal advisers, Money Purchase investment consultants and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance. Advisers and service providers are reviewed periodically with light touch reviews as required if there are any performance or other Trustee concerns about the adviser/provider. No new advisers in relation to the Money Purchase Category were appointed during the year. Over the year covered by this Statement the Trustee set objectives for its Money Purchase investment consultants, Hymans Robertson, in line with the Competition and Markets Authority (CMA) Order. These objectives will be reviewed annually beginning the year following this Statement.

The Trustee is satisfied that the knowledge and understanding that it has together with access to suitable advice gave it the requisite expertise to exercise its duties during the year.

The Trustee is also satisfied that their combined knowledge and understanding as a result of the actions described above, together with access to suitable advice, gave them requisite expertise to properly exercise their duties during the year.

GOVERNANCE

As referred to in last year's Chair's Statement, CCPTL has engaged with the 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 Trustee who was appointed for the period to 9 August 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 has been agreed by Capital Cranfield Pension Trustees Limited.