

THE MARKEL INTERNATIONAL PENSION SCHEME

Annual statement regarding governance

Introduction

I am pleased to present the Trustee's annual statement of governance of the Markel International Pension Scheme (the 'Scheme'), covering the period 1 January 2018 to 31 December 2018.

The Scheme's mission is to help members attain a good financial outcome for life after work. This statement describes the work that the Trustee has done to achieve that, and how it seeks to ensure that the Scheme is well-managed and delivers excellent services to members. In doing so, the Trustee provides the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This statement covers five key areas:

1. The investment strategy relating to the Scheme's default arrangement;
2. The processing of core financial transactions;
3. Charges and transaction costs within the Scheme;
4. Value for Members considerations; and
5. The Trustee's compliance with the statutory knowledge and understanding ('TKU') requirements.

Chair of the Markel International Pension Scheme
May 2019

1. Default investment option and lifestyle strategies

The investment options offered to members of the Scheme are managed by Aegon Investment Solutions Limited ("Aegon"), Newton Investment Management Limited ("Newton") and Insight Investment Management Limited ("Insight") and accessed through long-term insurance contracts with Scottish Equitable plc., of which Aegon UK is a brand name ('Aegon').

The Trustees have made three lifestyle investment options available for the Scheme which follow an identical initial investment pattern, until the member is eight or less years from their Target Retirement Age if one has been nominated or age 65 if not (together referred to as the "TRA"):

- Members that are more than 12 years from their TRA are 100% invested in the DC Aquila (30:70) Currency Hedged Global Equity Index Fund.
- Members that are between 8 and 12 years from their TRA are invested in the DC Aquila (30:70) Currency Hedged Global Equity Index Fund and the new MIPS Diversified Growth Fund with the amounts depending on how far they are from their TRA.

The investments within 8 years from a member's TRA will depend on a member's choice of lifestyle strategy:

The Drawdown Lifestyle Strategy (the current default investment option)

This is the default investment option for members joining after October 2015 and for members who were more than eight years from their Target Retirement Age or the Scheme's default retirement age if a target age has not been nominated by the member ("TRA") as at the same date.

When a member reaches eight years prior to their TRA, the equity assets are progressively switched into the BlackRock DC Aquila Corporate Bond All Stocks Index Fund and BlackRock DC Aquila Cash Fund, such that at their TRA, they are invested 50% in the MIPS Diversified Growth Fund, 30% in the BlackRock DC Cash Fund and 20% in the BlackRock DC Aquila Corporate Bond All Stocks Index Fund.

The Annuity Lifestyle Strategy (the previous default investment option)

This is the default investment option for members who were within eight years of their TRA as at October 2015.

When a member reaches eight years prior to their TRA, their fund is progressively switched into the BlackRock DC Aquila Over 15 Year Gilt Index Fund and BlackRock DC Cash Fund, such that at their TRA, they are invested 75% in the BlackRock DC Aquila Over 15 Year Gilt Index Fund and 25% in the BlackRock DC Cash Fund.

The Cash Lifestyle Strategy

When a member reaches eight years prior to their TRA, their fund is progressively switched into the BlackRock DC Aquila Corporate Bond All Stocks Index Fund and then into the BlackRock DC Cash Fund, such that at their TRA, they are invested 100% in the BlackRock DC Cash Fund.

The Trustees, with their investment advisor, carried out a detailed review of the three lifestyle strategies, including the default investment option during the quarterly Trustee meetings throughout 2016. As a result of the review, the Trustees decided to replace the Diversified Growth

Fund (“DGF”) component with a white-labelled fund – the MIPS Diversified Growth Fund and restructured the growth phase as detailed above. Members were communicated to about the changes in February 2017 and the changes were implemented between April and May 2017.

Statement of investment principles

As required by Pensions Legislation, the Trustees have prepared a Statement of Investment Principles (the ‘SIP’) for the Scheme. A copy is included within the appendices.

The Trustees will continue to monitor the default investment option and will make amendments as appropriate based on analysis of the likely requirements of Plan members.

2. The processing of core financial transactions

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

The Trustees operate a system of internal controls aimed at regularly monitoring the Scheme’s administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Scheme and the payment of benefits.

The Scheme’s Risk Register sets out the key risks for the Scheme and its membership. These are monitored and reviewed on a quarterly basis.

The Payment Schedule sets out the contributions to remit monthly to the Scheme. The administration report sets out the date contributions and data are received and the dates these are invested.

The Trustees have delegated administration of the Scheme to Mercer Limited and has agreed timescales with its administrators for all services, including core financial functions. The administration reports produced by Mercer Limited are reviewed quarterly by the Trustees.

Mercer Limited has also been appointed by the Trustees to provide investment consultancy services and to monitor the performance of the investment managers.

Aegon has been appointed by the Trustees as the platform provider for the investment of the Scheme’s assets. The day-to-day responsibility for the investment management of the underlying assets is delegated to Aegon, Newton Investment Management Limited and Insight Investment Management Limited all of which are regulated by the Financial Conduct Authority.

3. Charges and transactions costs

As required by the Administration Regulations, the Trustees are required to report on the charges and transactions costs for the investments used in the default investment arrangements and their assessment on the extent to which the charges and costs represent good value for members.

Charges

The charges borne by members consist of investment management fees only, which are deducted directly through the unit prices of the funds they invest in – these charges are known as 'Total Expense Ratios'. All other costs associated with running the Scheme, including administration, advisory, legal, benefit modelling tools and other member communications resources are paid for by the Company. These charges exclude the costs associated with trades in and out of a fund as well as the costs of trading a fund's underlying securities, including commissions and stamp duty, which are collectively referred to in this Statement as 'transaction costs'.

The total expense ratios ('TERs') for each of the funds currently available are summarised in Table 4 below. The TERs include the annual management charge and other expenses associated with the running and management of the funds (which will vary slightly from time to time). They have been sourced from Aegon as at 31 December 2018.

Transaction Costs

Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction costs, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (PS17/20) to investment managers regarding calculations and disclosures of transaction costs which comply with regulations. Due to the way in which transaction costs are calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity. The Trustees requested this information from Aegon, and the data provided for each fund is shown in Table 4 below.

Table 1: Drawdown Lifestyle Strategy (the default investment option):

Fund	TER (%p.a.)
BlackRock DC Aquila (30:70) Currency Hedged Global Equity Index	0.19
MIPS Diversified Growth	0.95
BlackRock DC Aquila Corporate Bond All Stocks Index	0.17
BlackRock DC Cash Fund	0.18

Table 2: Annuity Lifestyle Strategy:

Fund	TER (%p.a.)
BlackRock DC Aquila (30:70) Currency Hedged Global Equity Index	0.19
MIPS Diversified Growth	0.95
BlackRock DC Aquila Over 15 Year Gilt Index	0.12
BlackRock DC Cash Fund	0.18

Table 3: Cash Lifestyle Strategy:

Fund	TER (%p.a.)
BlackRock DC Aquila (30:70) Currency Hedged Global Equity Index	0.19
MIPS Diversified Growth	0.95
BlackRock DC Aquila Corporate Bond All Stocks Index	0.17
BlackRock DC Cash Fund	0.18

Table 4: Self-select options

Fund	TER (%p.a.)	Transaction Costs (%p.a.)*
BlackRock DC Aquila Currency Hedged Global Equity (30:70) Index	0.190	0.006
BlackRock DC Aquila Global Equity (70:30) Index	0.160	0.039
BlackRock DC Aquila World (ex UK) Equity Index	0.160	0.003
BlackRock DC Aquila UK Equity Index	0.110	0.046
BlackRock DC Diversified Growth	0.616	0.378
MIPS Diversified Growth	0.950	0.076
BlackRock DC Aquila Over 15 Year UK Gilt Index	0.121	-0.027
BlackRock DC Aquila Over 5 Year Index-Linked Index	0.110	-0.010
BlackRock DC Aquila Corporate Bond All Stocks Index	0.170	0.016
BlackRock DC Cash	0.180	0.017

*Source: Aegon. As at Q4 2018.

** Aegon were unable to provide the transaction costs for the MIPS DGF. The transaction cost shown is based on an average of the total transaction costs for the two underlying managers, sourced directly from the managers as at Q1 2019.

Although two of the funds experienced negative transaction costs over the period (i.e. representing a gain), it is unlikely that this will continue on an ongoing basis.

Using the charges and transaction cost data provided by Aegon, and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Scheme on their retirement savings pot.

We have shown example illustrations of what money invested (including existing and future contributions, as well as investment returns) in each of these funds could be worth taking inflation, investment costs and charges into account. These figures are shown in today's money, meaning they show what those pots could buy today. The figures shown in Table 5 are just illustrations and are not a guarantee of future values.

Table 5: Projected pot sizes in today's money

Year End	Most Popular: Default Arrangement		Lowest Return: BlackRock DC Cash		Highest Return: Aquila 70:30 Global Equity Index		Cheapest: Aquila UK Equity Index		Most Expensive: MIPS DGF	
	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred	Pot Size with no Charges Incurred	Pot Size with Charges Incurred
1	43,047	42,962	41,525	41,443	43,060	42,974	43,062	42,995	42,979	42,538
5	77,725	77,108	66,988	66,465	77,824	77,196	77,844	77,352	77,214	74,052
10	127,269	125,461	97,433	96,119	127,565	125,723	127,625	126,180	125,743	116,693
15	138,089	135,960	103,344	101,842	138,438	136,269	138,509	136,808	136,288	125,680
20	149,234	146,754	109,196	107,497	149,643	147,114	149,725	147,742	147,131	134,827
25	160,714	157,850	114,991	113,086	161,187	158,267	161,283	158,992	158,280	144,136
30	172,539	169,258	120,729	118,609	173,083	169,736	173,193	170,566	169,745	153,610
35	184,720	180,985	126,411	124,067	185,340	181,530	185,466	182,475	181,533	163,253
40	251,340	244,743	153,991	150,407	252,448	245,709	252,672	247,378	245,670	214,091
41	328,592	317,957	180,242	175,231	330,396	319,518	330,761	322,205	319,401	269,601
42	418,173	402,029	205,226	198,627	420,934	404,400	421,493	408,474	404,164	330,212
43	521,247	496,258	229,007	220,677	526,096	502,017	526,916	507,935	501,607	396,393
44	629,192	583,701	251,640	241,458	648,245	614,279	649,409	622,605	613,628	468,656
45	716,039	647,230	273,183	261,043	790,124	743,384	791,736	754,809	742,409	547,560

Notes

1. Values shown are estimated projections and are not guarantees.
2. The starting pot size is assumed to be £35,000 based on average pot size of membership.
3. Inflation and salary increases are assumed to be 2.5% each year.
4. Contributions are assumed to 15% (This reflects the company contribution for members who are in their 40s).
5. Starting pot size is representative of members who start investing at age 40. Projection shown for 45 years, based on assumption that the youngest member (age 20) accesses benefits at the end of their Normal Retirement Age (age 65).
6. The projected growth rates before charges and costs are as follows:
 - Default investment assumptions vary depending on point in the glidepath. The underlying fund assumptions are:
 - Aquila (30:70) Global Equity Index: 3% per year above inflation before charges, with charges of 0.19% a year
 - MIPS Diversified Growth Fund: 2.75% per year above inflation before charges, with charges of 0.95% a year
 - Aquila UK Corporate Bond Fund: 0.25% per year above inflation before charges, with charges of 0.17% a year
 - BlackRock DC Cash: 1.0% below inflation before charges, with charges of 0.18% a year
 - Aquila Life (70:30) Global Equity Fund: 3% per year above inflation before charges, with charges of 0.16% a year
 - Aquila UK Equity Index: 3% per year above inflation before charges, with charges of 0.11% a year

4. Value for Members considerations

In accordance with regulation 25(1)(b), the Trustees are required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for members.

The Employer meets the administration costs associated with the Scheme. In addition, the investment charges applied to members, benefit from being based on the wider Market Pension Plan assets, therefore, providing members with lower charges than if the funds were priced on a standalone basis. The Trustees carried out analysis of the member borne charges in May 2018 and are satisfied the Scheme provides members with good value for members. This analysis is required to be undertaken on an annual basis. In addition to this check, the Trustees continually review costs with their advisors.

5. Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice that is available to them, enables them to properly exercise their functions and duties in relation to the Scheme. This requirement has been met during the course of the scheme year as follows:

Requirement	How met
Trustees must have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets	<p>The Trustees undertake an annual evaluation of training requirements, which includes specific consideration of whether any further training is required in respect of these statutory areas.</p> <p>Training has been provided on key issues on the Board's agenda as part of Board meetings.</p> <p>The Trustees completed an investment strategy review in 2017, which includes knowledge and understanding of the investment process and potential members' outcomes.</p> <p>The Trustees have undertaken specific training from their legal adviser on the process of Scheme wind-ups. This was relevant as the Company has closed the Scheme to new contributions and asked the Trustees to transfer the assets and wind up the Scheme.</p> <p>The Trustees complete the Pension Regulator's Trustee Toolkit modules with a commitment to do so within six months of their appointment.</p>
Trustees must be conversant with the Scheme's own documentation	<p>The Trustees undertake an annual evaluation of training requirements, which includes specific consideration of whether any further training is required in respect of these documents to ensure the Trustees continue to be conversant.</p>
Knowledge and resources generally	<p>The Trustee Board comprises individuals with diverse professional skills and experiences, reflecting the varied nature of the challenges that its governance must address.</p> <p>The employer pays all reasonable expenses of Trustee Directors attending conferences relevant to their role.</p> <p>Trustees are encouraged to undertake further training where appropriate with training logs maintained. The Trustee's pension advisors attend each of their quarterly meetings and input into the agenda. They also help the Trustee prepare its annual business plan.</p> <p>The Trustees' investment advisor reports quarterly on the performance of the Scheme's investments and on their views regarding the Scheme's funds and their managers.</p>

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

This Statement was signed by the Chairman of the Trustees, Ron Northedge on 22 July 2019.

Appendix

Statement of Investment Principles effective July 2017 (uploaded separately to this document, on the website).