ING UK Pension Fund ('the Fund')

Governance Statement 2019 – Member Version

The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 as amended by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 ('the Regulations') require the Trustees of the ING UK Pension Fund ('the Trustees') to publish certain information from the Fund's annual governance statement on a publically available website.

This statement has been prepared by the Trustees to comply with the Regulations for the period covering 1 April 2018 to 31 March 2019 ('the Scheme Year') and reports on the Defined Contribution (DC) Section of the Fund as well as the legacy money purchase additional voluntary contribution (AVC) arrangements that are in place under the Defined Benefit (DB) Section of the Fund. A copy of the full governance statement can be found within the Trustee Report and Accounts and you are able to request a copy from the Fund's administrators by emailing: ingukpf@capita.co.uk or calling: 0800 389 6709.

1. The Fund's investment strategy – including the default investment strategy

The Fund's Statement of Investment Principles (SIP) set out the aims and objectives of the Fund's investment strategy and provides further information about the default investment strategy ('the default'). In particular, the SIP covers:

- The Trustees' investment policy, including polices on risk, risk measurement and risk management;
- The Trustees' policies on how they take account of "financially material considerations" (including, but not limited to, environmental, social and governance (ESG) factors as well as climate change) as well as the Trustees' policy on stewardship (in respect of voting rights and monitoring and engagement with investments).
- The design of the default, which is a lifestyle investment strategy.

A copy of the latest default SIP, dated September 2019, can be located under the "Statement of Investment Principles" section of the Fund's website: https://www.myingpension.com/.

DC Section

The performance of all the DC Section funds, including those underlying the Fund's lifestyle investment strategies (including the default), are reviewed by the Trustees each quarter and the Trustees' professional investment adviser provides an investment performance monitoring report called "FundWatch". The analysis and advice provided supports the Trustees in determining whether they should consider making any investment changes as a result of the performance of funds.

No changes were made to DC Section investment strategy (including the default) during the Scheme Year and the default, as at 31 March 2019, was the Medium Risk Drawdown Lifestyle. The default assumes that a retiring member will draw a tax free cash lump sum of 25% of their account value and use the remaining 75% to enter a drawdown arrangement. The default is comprised of the following elements:

	Asset Allocation	**Timing**
Growth Phase	50% Legal & General (L&G) (30:70) Global Equity Index Fund 50% Schroders Intermediated Diversified Growth Fund	Members remain invested in this allocation until 10 years before their selected retirement date.
Consolidation phase	45% Schroders Intermediated Diversified Growth Fund 30% LGIM Pre-Retirement Inflation-Sensitive Fund 25% LGIM Cash Fund	For the final 10 years before a member's selected retirement date their portfolio switches gradually towards this final allocation.

The Trustees also provide alternative lifestyle strategies for members in order to cater for members' differing needs, both in terms of their appetite to take investment risk as well as their likely benefit choice at retirement. Members are able to select the level of risk they would like to take in the growth phase (i.e. low, medium or high) and are also able to target a particular at-retirement outcome (i.e. annuity purchase, lump sum withdrawal or drawdown).

During the Scheme Year, the Trustees concluded their statutory review of the Fund's DC investment strategy (including the default) under paragraph 2 of Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005. This statutory review included the following:

1. A membership analysis exercise to understand the likely risk tolerance and anticipated retirement benefit outcomes of members of the DC Section – this analysis was used to help inform the Trustees' considerations regarding the continued appropriateness of the default;
2. An evaluation of the DC Section fund options to assess the historic performance of these funds relative to their respective benchmarks and the aims/objectives set out the default SIP – this evaluation was also used to support the Trustees in considering whether the fund range remains suitable for members of the DC Section.

As at the date of this Statement no changes had been made as a result of the statutory review because the Trustees are now in the process of finalising their decisions resulting from the statutory review with the aim of agreeing and implementing any changes before the end of the next Scheme Year (i.e. 31 March 2020).

Legacy AVC arrangements

The Trustees hold a number of legacy AVC policies and members of the DB Section had historically been able to build up additional pension savings, on a money purchase basis, within these policies. The legacy AVC policies are held with Aegon, Aviva, Equitable Life, Legal & General, Prudential and Standard Life. The individual investments within the legacy AVC arrangements have specifically been selected by members without the Trustees' recommendation.

The Trustees have recently reviewed the Fund's legacy AVC arrangements, assessing whether these arrangements are delivering value to members, and the outcome of this assessment is reported later on in this statement. Based on the outcome of the review, the Trustees are looking to introduce changes to these arrangements before the end of the next Scheme Year (i.e. 31 March 2020) as explained in section 3 below.

2. Charges and transaction costs

For the purposes of this section "charges" are defined as the ongoing annual charges. These charges consist of the Annual Management Charges plus additional fund expenses (e.g. for custody, audit, UK stamp duty but excluding transaction costs – see below) that make up the Total Expense Ratio (TER). No other charges (excluding transaction costs) are borne by members.

In preparing this section, the Trustees have taken account of statutory guidance prepared by the Department for Work and Pensions.

DC Section

The TERs and member-borne transaction costs for the funds which members are able to select within the DC Section of the Fund during the Scheme Year are set out in the table below:

Fund Name	Total Expense Ratio (TER)(p.a. of account value)	Aggregate transaction costs (% of fund p.a.)[1]
L&G (30:70) Currency Hedged Global Equity Index	0.200%	0.041%
L&G World (ex-UK) Equity Index	0.220%	-0.006%
L&G UK Equity Index	0.130%	-0.022%
L&G North America Equity Index	0.200%	-0.012%
L&G Europe (ex-UK) Equity Index	0.260%	0.009%
L&G Asia Pacific (ex-Japan) Developed Equity Index	0.275%	0.004%

L&G Japan Equity Index	0.225%	-0.009%
L&G World Emerging Markets Equity Index	0.450%	0.022%
Schroders Intermediated Diversified Growth	0.590%	0.547%
L&G Pre-Retirement Inflation-Sensitive	0.150%	0.006%
L&G AAA-AA-A Corporate Bond - All Stocks - Index	0.150%	-0.021%
L&G Composite Bond[2]	0.160%	0.010%
L&G Over 15 Year Gilts Index	0.100%	-0.008%
L&G Over 5 Year Index-Linked Gilts Index	0.100%	0.031%
L&G Hybrid Property 70:30	0.500%	0.032%
L&G Cash	0.125%	0.004%

[1] *Source for the transaction cost data: L&G and Schroders*

[2] *This fund consists of 3 component funds (40% Active Corporate Bond, 30% Over 15 Year Gilts Index and 30% Over 15 Year Index-Linked Gilts Index)*

Please refer to the 'ING UK Pension Fund (Defined Contribution Section) Investment Guide' for more details of the investment options available within the DC Section. The Investment Guide can be located under the "Scheme Information" section of the Fund's website: https://www.myingpension.com/

The default

The default is constructed using a number of the above funds, as such, the charges members pay depends on the period of time until their selected retirement date.

Members invested in the default pay the maximum total charge during the growth phase, when 50% of their pension account is invested in the L&G (30:70) Global Equity Index Fund and 50% is invested in the Schroders Intermediated Diversified Growth Fund. The charges incurred at some of the different stages of the default are set out below:

	Asset Allocation	**Total Expense Ratio (p.a.)**
Until 10 years before selected retirement date	50% Legal & General (L&G) (30:70) Global Equity Index Fund 50% Schroders Intermediated Diversified Growth Fund	0.395%
5 years before selected retirement date	25% Legal & General (L&G) (30:70) Global Equity Index Fund 47.5% Schroders Intermediated Diversified Growth Fund 27.5% LGIM Pre-Retirement Inflation-Sensitive Fund	0.372%
At a members selected retirement date	45% Schroders Intermediated Diversified Growth Fund 30% LGIM Pre-Retirement Inflation-Sensitive Fund 25% LGIM Cash Fund	0.342%

The Trustees can therefore confirm that the total charge for the default falls below the charge cap of 0.75% p.a. set out in the Regulations.

Legacy AVC arrangements

The TERs and, so far as the Trustees have been able to obtain them, the member-borne transaction costs for the funds currently being invested in within the legacy AVC arrangements are as follows:

Legacy AVC provider	**Fund Name**	**TER (p.a. of account value)**	**Aggregate transaction costs (% of fund p.a.)[3]**
Aegon	Aegon BlackRock 70/30 Global Growth	0.760%	0.138%
	Aegon BlackRock UK Growth	0.760%	0.172%
	Aegon BlackRock Fixed Income Global Opportunities	0.910%	0.590%
Aviva	Aviva Global Bond Pension Standard	0.600%	-
	Aviva Global Equity Pension Standard	0.600%	-
	Aviva Gilt Pension Standard	0.600%	-
	Aviva Mixed Investment (40-85% Shares) Pension Standard	0.600%	-
	Aviva Pacific Equity Pension Standard	0.600%	-

	Aviva Property Pension Standard	0.600%	-
	Aviva UK Equity Pension Standard	0.600%	-
	Aviva US Equity Pension Standard	0.600%	-
	Aviva With-Profit 1 (CGNU) Pension Standard[4]	N/A	N/A
	Aviva With-Profit (NU) Pension Standard[4]	N/A	N/A
	Aviva With-Profit Guaranteed (NU) Pension Standard[4]	N/A	N/A
Equitable Life	Equitable Life North American	0.750%	0.007%
	Equitable Life Far Eastern	0.750%	0.157%
	Equitable Life European	0.750%	0.232%
	Equitable Life Gilt and Fixed Interest	0.500%	0.140%
	Equitable Life International	0.750%	0.148%
	Equitable Life Investment Trusts	0.750%	0.170%
	Equitable Life Managed Pension	0.750%	0.107%
	Equitable Life Money	0.500%	0.007%
	Equitable Life Pelican	0.750%	0.366%
	Equitable Life Property	1.000%	0.163%
	Equitable Life UK FTSE All-Share	0.500%	0.040%
	Equitable Life With-profits[4]	N/A	N/A
Legal & General	L&G Index Linked Gilt Fund	0.300%-0.900%[5]	-0.03%
	L&G Consensus Fund		-0.01%
Prudential	Prudential UK Equity	0.750%	-
	Prudential International Equity	0.750%	-
	Prudential With-Profits Cash Accumulation[4]	N/A	N/A
Standard Life	Standard Life Managed Pension	0.623%	0.121%
	Standard Life International Equity Pension	0.626%	0.068%
	Standard Life Money Market Pension	0.609%	0.012%
	Standard Life Ethical Pension	0.611%	0.109%

[3]Source for the transaction cost data: Aegon, Equitable Life, Legal & General and Standard Life.

[4]The charges and transaction costs for the above with profits funds are deducted from the assets backing the overall fund before the annual bonus rates are set. As a result, it is not possible to determine the exact charges and costs borne by members. The implicit charges incurred within the with profits funds cover the cost of any guarantees and reserving as well as investment management and administration.

[5]The charges for the Legal & General AVC funds vary based on asset values – 0.900% p.a. (£0 to £25,000), 0.700% p.a. (£25,000 to £50,000) and 0.300% p.a. (above £50,000).

Transaction costs and gains

Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending or borrowing investments. These costs are allowed for within the unit price for each of the Fund's DC Section and unit-linked legacy AVC funds. In 2017, the Financial Conduct Authority (FCA) published its policy on how asset managers must disclose transaction costs and administration charges and, as a result, providers have started reporting on this new basis.

Details of the aggregated transaction costs for each of the DC Section, and unit-linked legacy AVC, funds over the course of the Scheme Year are set out, alongside the TERs, in the tables above.

At the date this statement was produced, the Trustees were unable to obtain the required transaction cost information from Aviva and Prudential. Both providers have noted that the introduction of the required systems and processes necessary to report on transaction costs has taken longer than expected to implement and that they expect to be able to disclose the required transaction cost data later in Q4 2019. Prudential has also explained that in some cases they are "reliant on the fund managers of the underlying funds to report transaction costs for the underlying funds" before they are able to complete their transaction cost calculations/disclosures. The Trustees will continue to liaise with Aviva and Prudential on an ongoing basis to ensure that the required transaction cost data is disclosed (where possible).

The Trustees will, therefore, aim to disclose the transaction cost information for all DC and legacy AVC funds as part of the Governance Statement for the next Scheme Year.

3. An assessment of the value the Fund provides to members

The Trustees are committed to ensuring that the Fund provides value for its members (i.e. that the costs and charges members pay provide good value in relation to the benefits and services received) and consider this issue on an on- going basis.

The Trustees have received an independent value for members assessment from Willis Towers Watson and this assessment concluded that the DC Section of the Fund provides good value for members. This assessment included or noted the following:

- Five core areas were reviewed as part of the assessment and these areas were: 1) scheme governance and management; 2) investment; 3) administration; 4) communications and 5) charges. The assessment showed that three out of the five core areas were providing good value, and the remaining two areas provided sufficient value, to members.
- A benchmarking exercise was undertaken to compare the weighted average charges paid by members in the DC Section, to cover the investment management costs of the funds they are invested in, against those of other similar pension arrangements. This exercise showed that the weighted average charges incurred within the DC Section were approximately 0.05% p.a. lower than other comparable pension schemes.
- Members are provided with a range of investment options (including lifestyle strategies that take different levels of investment risk and target a range of retirement benefit outcomes) and the DC Section funds have largely performed in line with their respective benchmarks.
- Members receive a comprehensive administration service, the costs of which are met by the Fund.
- The Fund engages with its members and provides them with on-line access to their accounts at no cost.

The Trustees are in the process of reviewing the at-retirement options and support available to DC Section members and will provide an update on this activity as part of the Governance Statement for the next Scheme Year.

The Trustees have also received a value for members assessment of the legacy AVC arrangements from Willis Towers Watson and this assessment concluded that these arrangements provide below average to sufficient value to members. The assessment of the legacy AVC arrangements has included or noted the following:

- Four core areas were reviewed as part of the assessment and these areas were: 1) investment; 2) administration; 3) communications and 4) charges. The assessment showed that two out of the four core areas were providing sufficient value and the remaining two areas provided below average value to members.
- The Trustees assessment was underpinned by Willis Towers Watson's research assessment of each provider's AVC proposition/capabilities. The Willis Towers Watson research assessment covered 22 separate features across five distinct areas (business, administration, investment, communication as well as charges) and rated each feature on a five point scale, from 'significant strength' to 'significant weakness'. Overall, the research assessment of the legacy AVC providers was mixed, with very few areas of "strength" or "significant strength" being identified.
- Some of the AVC investment options have underperformed their benchmarks over the short and longer term periods and members may be invested in a manner which is not aligned to their retirement objectives.
- The ongoing charges incurred by members invested in the legacy AVC policies were viewed as being high compared against the services/features members could access elsewhere (e.g. the DC Section). There was also a comparison of the charges incurred within the AVC investment options against broadly comparable options within the DC Section to help support this.

As a result of the value for members assessment undertaken in respect of the legacy AVC arrangements, the Trustees will be writing out to all members who hold investments in the legacy AVC arrangements to offer them the option of transferring these benefits into the Fund's DC Section.

Taking account of the all of the factors above, the Trustees have concluded that the overall charges and transaction costs incurred by members of the Fund represent good value.

4. An illustration of the effect of charges and costs over time

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a "£ and pence" illustration showing the compounded effect of costs and charges. As a result, the Trustees have set out an illustration below which shows the projected value, over different time horizons, of six of the most commonly used funds within the DC Section of the Fund as at 31 March 2019 (including the four individual investment funds that are used as components with the default investment strategy).

In preparing this illustration, the Trustees have taken account of statutory guidance prepared by the Department for Work and Pensions.

Years	Schroders Intermediated Diversified Growth Fund		L&G (30:70) Global Equity Index Fund		L&G UK Equity Fund		L&G Hybrid Property 70:30 Fund		L&G Pre-Retirement Inflation-Sensitive Fund		L&G Cash Fund	
	Before charges	After charges + costs deducted	Before charges	After charges + costs deducted	Before charges	After charges + costs deducted	Before charges	After charges + costs deducted	Before charges	After charges + costs deducted	Before charges	After charges + costs deducted
1	£135,100	£133,700	£135,800	£135,500	£135,700	£135,600	£134,500	£133,800	£130,800	£130,600	£130,600	£130,400
3	£156,000	£151,300	£158,100	£157,100	£158,000	£157,500	£153,900	£151,600	£142,300	£141,700	£141,500	£141,000
5	£177,800	£169,200	£181,700	£179,800	£181,300	£180,600	£173,800	£169,800	£153,400	£152,400	£152,000	£151,200
10	£236,200	£215,400	£245,900	£241,100	£245,100	£243,100	£226,500	£216,900	£180,100	£177,800	£177,100	£175,300
15	£314,900	£277,300	£332,900	£324,000	£331,300	£327,600	£297,200	£280,100	£218,000	£214,400	£213,300	£210,400
20	£403,700	£343,900	£433,300	£418,600	£430,800	£424,600	£375,300	£348,200	£255,100	£249,900	£248,400	£244,300
25	£502,000	£413,500	£547,200	£524,600	£543,200	£533,800	£459,400	£419,800	£289,800	£282,900	£280,900	£275,500
30	£610,800	£486,400	£676,300	£643,300	£670,500	£656,800	£550,300	£495,100	£322,400	£313,600	£311,100	£304,200

Notes:

a. Projected pension account values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.
b. Contributions are assumed to be paid between the ages of 35 and 65 at a rate of 12.5% p.a. (until the age of 45) and 17.5% p.a. (from age 45 onwards).
c. The member’s current salary is £60,000 (increasing by 2.5% per year).
d. Investment returns, charges and costs, as a percentage reduction per annum, are assumed to be added or deducted at the end of the year.
e. The starting account size is assumed to be £125,000.
f. Inflation is assumed to be 2.5% each year and the real projected growth rates, below, are set out net of this inflation assumption.
g. The projected growth rates (after costs and charges) already take into account the impact of any transaction costs that may be incurred over the longer term. As a result, gross growth rates (i.e. before all costs/charges including transaction costs) have been used for the purposes of the “Before charges” figures set out in the table above.
h. The real (i.e. after inflation) projected growth rates (before and after costs and charges) for each fund are as follows:

Fund name	Gross of all charges	Net of all charges
Schroders Intermediated Diversified Growth Fund	2.047%	0.910%
L&G (30:70) Global Equity Index Fund	2.541%	2.300%
L&G UK Equity Fund	2.500%	2.370%
L&G Hybrid Property 70:30 Fund	1.532%	1.000%
L&G Pre-Retirement Inflation-Sensitive Fund	-1.294%	-1.450%
L&G Cash Fund	-1.496%	-1.625%

i. The transaction costs used in the illustrations have been provided by L&G as well as Schroders, cover the period from 1 April 2018 to 31 March 2019 and are detailed in Section 2 of this statement. In some cases, L&G has provided details of negative transaction costs and, where this is the case, it has been assumed that zero transaction costs (i.e. 0.0%) have actually been incurred for the purposes of the “Before charges” figures set out in the table above.
j. The values shown are for illustrative purposes only and are not guaranteed.

Johnnie Russell **Date: October 2019**

Chair of the Trustees - ING UK Pension Fund