

ING UK Pension Fund ('the Fund')

Governance Statement 2021 – Member Version

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 sections of the Fund's annual governance statement on a publicly available website.

This statement has been prepared by the Trustees to comply with the Regulations for the period covering 1 April 2020 to 31 March 2021 ('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 option

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 option ('the default'). In particular, the SIP covers:

- The Trustees' investment policy, including policies 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 February 2021, 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.

A number of changes were made to the DC Section investment strategy (including the default) during the Scheme Year, including:

1. The default was updated to replace the Schroders Diversified Growth Fund (DGF) with the Legal & General (L&G) Diversified Fund.
2. The Flexicycle options were also updated to replace the Schroders DGF with the L&G Diversified Fund. The High Risk lifestyles (Drawdown, Annuity and Cash Lump Sum) did not utilise the Schroders DGF but the Medium Risk Annuity/Cash Lump Sum Lifestyles as well as the Low Risk Drawdown/Annuity/Cash Lump Sum Lifestyles were updated for this change.
3. The Schroders DGF was removed as a self-select investment option and the investments held in this fund were transferred to the L&G Diversified Fund, with the L&G Diversified Fund being added to the self-select fund range.
4. The L&G MSCI ACWI Adaptive Capped ESG Index Fund was introduced into the self-select fund range to provide members with a broader range of investment choices.

- The Trustees negotiated a fee discount with L&G and, as a result, the overall charges incurred by members across 13 of the LGIM funds were reduced by up to 20%.

Members who join the DC Section and who do not choose an investment option are placed into the default. The default, as at 31 March 2021, was the Medium Risk Drawdown Lifestyle. The aims and objectives of the default, as stated in the SIP, are as follows:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk;
- To provide a strategy that reduces investment risk for members as they approach retirement, and to provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take their benefits via income drawdown.

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% L&G Diversified Fund	Members remain invested in this allocation until 10 years before their selected retirement date.
Consolidation phase	45% L&G Diversified Fund 30% L&G Pre-Retirement Inflation-Sensitive Fund 25% L&G Cash Fund	For the final 10 years before a member's selected retirement date their portfolio switches gradually towards this final allocation.

During the Scheme Year, two additional default investment options ('the additional defaults') were created.

The first additional default was created as a result of Legal & General Investment Management (LGIM) suspending dealing in the L&G Hybrid Property (70:30) Fund. The L&G Hybrid Property (70:30) Fund was offered as a self-select investment option and members actively contributing to this fund were asked to select an alternative fund for their future contributions. There were, however, 8 members who did not choose to do so and, having taken investment advice, the Trustees agreed to redirect the contributions for these members to the L&G Cash Fund. The result being that the L&G Cash Fund is now also classified as a default investment option under the DC Section of the Fund.

The second additional default was created as part of the investment changes made during the Scheme Year. The Trustees transitioned all assets held in the Schroders Diversified Growth Fund to the L&G Diversified Fund, including assets held by members on a self-select basis. As the assets of self-selecting members were transitioned to the L&G Diversified Fund on a non-consent basis (although members were reminded of the option to select alternative funds from the DC Section's fund range), the L&G Diversified Fund is now also a default investment option under the DC Section of the Fund.

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 benefits 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).

The Trustees regularly monitor the performance of the default arrangement and formally review both this as well as the broader DC investment strategy at least every three years. The Trustees last completed a 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, during Q1 2019. This statutory review included the following:

- 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;
- An evaluation of the DC Section fund options to assess the historic performance relative to their respective

benchmarks and the aims/objectives set out in 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.

The next review of the default and the Fund’s DC investment strategy is currently underway, and the outcome of this review will be reported on as part of the next Statement.

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, Prudential, ReAssure (formerly Legal & General), Standard Life and Utmost Life and Pensions. The individual investments within the legacy AVC arrangements have specifically been selected by members without the Trustees’ recommendation.

The Trustees last reviewed the Fund’s legacy AVC arrangements in July 2019, assessing whether these arrangements are delivering value to members, and the outcome of this assessment is reported on 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 2022) as explained at section 5 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). The TER is paid by members and is reflected in the unit price of the funds they invest in. 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 tables below.

Cost and charges

Fund Name	Total Expense Ratio (TER) (p.a. of account value)¹ for funds available until 17 November 2020	TER (p.a. of account value)¹ for funds available after 17 November 2020	Aggregate transaction costs (% of fund p.a.)¹ for funds available until 17 November 2020	Aggregate transaction costs (% of fund p.a.)¹ for funds available after 17 November 2020
L&G (30:70) Currency Hedged Global Equity Index	0.2179%	0.1600%	0.0390%	0.0393%
L&G World (ex-UK) Equity Index	0.2232%	0.1760%	-0.0121%	
L&G UK Equity Index	0.1510%	0.0800%	-0.0203%	-0.0199%
L&G North America Equity Index	0.2008%	0.1600%	-0.0219%	-0.0221%
L&G Europe (ex-UK) Equity Index	0.2586%	0.2000%	-0.0062%	-0.0082%
L&G Asia Pacific (ex-Japan) Developed Equity Index	0.2816%	0.2200%	0.0080%	0.0074%
L&G Japan Equity Index	0.2268%	0.1800%	0.0128%	0.0115%

L&G World Emerging Markets Equity Index	0.4638%	0.3600%	0.0193%	0.0183%
Schroders Intermediated Diversified Growth	0.6098	Fund not available after 17 November 2020	0.3329%	Fund not available after 17 November 2020
L&G Pre-Retirement Inflation-Sensitive	0.1506%		0.0414%	
L&G AAA-AA-A Corporate Bond - All Stocks - Index	0.1503%	0.1500%	-0.0207%	
L&G Composite Bond ²	0.1433%	0.1314%	0.0016%	-0.0003%
L&G Over 15 Year Gilts Index	0.0999%	0.0800%	0.0007%	-0.0025%
L&G Over 5 Year Index-Linked Gilts Index	0.0998%	0.0800%	0.0250%	0.0218%
L&G Hybrid Property 70:30	0.5075%		-0.0112%	
L&G Cash	0.1247%	0.100%	-0.0019%	-0.0021%
L&G Diversified Fund	Fund not available before 17 November 2020	0.190%	Fund not available before 17 November 2020	0.0010%
L&G MSCI ACWI Adaptive Capped ESG Index	Fund not available before 17 November 2020	0.229%	Fund not available before 17 November 2020	0.0528%

¹Source for data in tables: L&G and Schroders and the transaction cost data covers the period covering 1 April 2020 to 31 March 2021

²This fund consists of 3 component funds (40% Active Corporate Bond, 30% Over 15 Year Gilts Index and 30% Over 5 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: www.myingpension.com.

The default and the additional defaults

The default is constructed using a number of the above funds and, 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 L&G Diversified Fund. The charges incurred at some of the different stages of the default are set out below:

	Asset Allocation	Total Expense Ratio		Aggregate transaction costs	
		% p.a.	£ per £1,000	% p.a.	£ per £1,000
Until 10 years before selected retirement date	50% Legal & General (L&G) (30:70) Global Equity Index Fund 50% L&G Diversified Fund	0.175%	£1.75	0.020%	£0.20
5 years before selected retirement date	25% L&G (30:70) Global Equity Index Fund 47.5% L&G Diversified Fund 27.5% L&G Pre-Retirement Inflation-Sensitive Fund	0.172%	£1.72	0.022%	£0.22
At a member's selected retirement date	45% L&G Diversified Fund 30% L&G Pre-Retirement Inflation-Sensitive Fund 25% L&G Cash Fund	0.156%	£1.56	0.012%	£0.12

The additional defaults, the L&G Cash Fund and the L&G Diversified Fund, have TERs of 0.125% p.a. and 0.190% p.a. respectively. The Trustees can therefore confirm that the total charge for the default and the additional defaults fall

well 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 invested within the legacy AVC arrangements at the end of the Scheme Year 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	0.750%	0.2286%
	Aegon BlackRock UK Growth	0.750%	0.1777%
	Aegon BlackRock Cash ⁴	0.330%	0.1370%
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	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 ⁵	N/A	N/A
	Aviva With-Profit (NU) Pension Standard ⁵	N/A	N/A
	Aviva With-Profit Guaranteed (NU) Pension Standard ⁵	N/A	N/A
ReAssure ⁶	L&G Index Linked Gilt Fund	0.300%-	0.0280%
	L&G Consensus Fund	0.900% ⁷	0.0240%
Prudential ⁸	Prudential UK Equity	0.760%	0.00%
	Prudential International Equity	0.770%	0.23%
	Prudential With-Profits Cash Accumulation ⁵	N/A	N/A
Standard Life	Standard Life Managed Pension	0.623%	0.1585%
	Standard Life International Equity Pension	0.626%	0.1057%
	Standard Life Money Market Pension	0.609%	0.0013%
	Standard Life Ethical Pension	0.611%	0.2099%
Utmost ⁹	Utmost Life and Pensions US Equity	0.750%	0.1851%
	Utmost Life and Pensions Asia Pacific	0.750%	0.3526%
	Utmost Life and Pensions European	0.750%	0.4282%
	Utmost Life and Pensions UK Government Bond	0.500%	0.0302%
	Utmost Life and Pensions Global Equity	0.750%	0.2329%
	Utmost Life and Pensions Fund of Investment Trusts	0.750%	0.4100%
	Utmost Life and Pensions Managed	0.750%	0.1475%
	Utmost Life and Pensions UK Equity	0.750%	0.3885%
	Utmost Life and Pensions Property	1.480%	0.0334%
	Utmost Life and Pensions UK FTSE All-Share	0.500%	0.0782%
	Utmost Life and Pensions Multi-Asset Moderate ¹⁰	0.750%	0.5261%
	Utmost Life and Pensions Utmost Multi-Asset Cautious ¹⁰	0.750%	0.5428%
	Utmost Life and Pensions Money Market ¹⁰	0.500%	0.0010%

³Source for the transaction cost data: Aegon, Prudential, ReAssure, Standard Life and Utmost Life and Pensions.

⁴The Aegon BlackRock Fixed Income Global Opportunities Fund was closed on 1 June 2020 and investments held in this fund were moved to the Aegon BlackRock Cash Fund.

⁵The 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.

⁶ ReAssure transaction cost data covers the period from 4 January 2020 to 31 March 2021.

⁷The charges for the ReAssure 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).

⁸Prudential transaction cost data covers the period 1 October 2019 to 30 September 2020.

⁹Utmost transaction cost data covers the period from 1 January 2020 to 31 December 2020.

¹⁰The assets held in the Utmost Secure Cash Fund were transferred to the Utmost Investing by Age Strategy in June 2020. The Investing by Age lifestyle uses a combination of the Utmost Multi-Asset Moderate, Utmost Multi-Asset Cautious and Utmost Money Market Funds.

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 are now 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. Additionally, the transaction cost data obtained from Prudential and Utmost covers the year to 30 September 2020 and 31 December 2020 respectively.

The Trustees will continue to liaise with Aviva, Prudential and Utmost Life and Pensions on an ongoing basis to ensure that the required transaction cost data for the year to 31 March 2021 is disclosed (where possible) and expect this information to be made available before 31 October 2021.

The Trustees will also 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 (taking into account TPR's Code of Practice 13), dated July 2021, 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 either excellent or good value, one of the remaining two areas provided sufficient value with the other providing below average value, to members.
- A benchmarking exercise was undertaken to compare the weighted average AMCs 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.
- An assessment exercise was undertaken to benchmark the transaction costs incurred within the DC Section funds against similar funds available in the DC market, the outcome being that the majority of the DC Section fund transaction costs are below the market average.
- 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). The DC Section funds, including the default, have largely performed in line with their respective benchmarks as well as the objectives set out in the SIP.
- 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 following items:

- The at-retirement options and support available to DC Section members, and
- The structure and content of the annual benefit statements.

The Trustees will provide an update on these activities as part of the Governance Statement for the next Scheme Year.

The Trustees have also received a value for members assessment, dated July 2019, 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 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 2021 (including the four individual investment funds that are used as components with the default investment option).

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

Years	L&G Diversified 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	£133,800	£133,500	£135,100	£134,900	£135,100	£135,000	£133,800	£133,100	£130,600	£130,400	£129,900	£129,800
3	£151,600	£150,800	£156,000	£155,200	£155,800	£155,500	£151,600	£149,500	£141,500	£140,900	£139,500	£139,100
5	£169,800	£168,400	£177,700	£176,200	£177,400	£176,800	£169,800	£166,100	£152,100	£151,000	£148,700	£148,000
10	£217,000	£213,600	£236,100	£232,300	£235,300	£233,800	£216,900	£208,200	£177,300	£174,900	£170,100	£168,700
15	£280,200	£274,300	£314,700	£307,600	£313,200	£310,400	£280,100	£264,800	£213,600	£209,800	£202,200	£200,000
20	£348,300	£339,200	£403,300	£392,000	£401,000	£396,500	£348,200	£324,500	£248,800	£243,400	£232,700	£229,700
25	£419,900	£406,700	£501,500	£484,400	£497,900	£491,100	£419,800	£385,800	£281,400	£274,400	£260,300	£256,400
30	£495,200	£477,000	£610,000	£585,600	£604,900	£595,200	£495,100	£448,500	£311,800	£302,800	£285,300	£280,400

Notes:

1. Projected pension account values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. 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).
3. The member's current salary is £60,000 (increasing by 2.5% per year).
4. Investment returns, charges and costs, as a percentage reduction per annum, are assumed to be added or deducted at the end of the year.
5. The starting account size is assumed to be £125,000.
6. Inflation is assumed to be 2.5% each year and the real projected growth rates, below, are set out net of this inflation assumption.
7. 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.
8. 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
L&G Diversified Fund	1.001%	0.810%
L&G (30:70) Global Equity Index Fund	2.041%	1.840%
L&G UK Equity Fund	2.000%	1.920%
L&G Hybrid Property 70:30 Fund	1.000%	0.492%
L&G Pre-Retirement Inflation-Sensitive Fund	-1.484%	-1.651%
L&G Cash Fund	-1.998%	-2.100%

9. The transaction costs used in the illustrations have been provided by L&G, cover the period from 1 April 2018 to 31 March 2021 and have been annualised for the purposes of this illustration. Transaction costs for the L&G Diversified Fund only cover the period from 1 April 2020 to 31 March 2021. 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.
10. The values shown are for illustrative purposes only and are not guaranteed.

Johnnie Russell

Date: 4 August 2021

Chair of the Trustees - ING UK Pension Fund