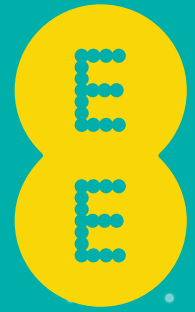


ANNUAL REPORT AND FINANCIAL
STATEMENTS – SUMMARY

CHAIR'S ANNUAL GOVERNANCE STATEMENT



THE EE
PENSION
SCHEME
UNFOLDED

Defined Contribution Section news
August 2019

WELCOME

This newsletter provides a summary of the EE Pension Scheme ('the Scheme') Annual Report and Financial Statements for the year ended 31 December 2018, relating to the Defined Contribution (DC) Section.

We also update members on changes during the Scheme year.

In this section of your newsletter, we give you a brief summary of the Annual Report and Financial Statements for the period ended 31 December 2018. Current employees can see a full copy of the Annual Report and Financial Statements which can be found on HR Rewards.

Deferred members can see a copy on the Zurich member website.

Membership.

If you look at the chart below you can see how the Scheme's membership has changed.

	31 Dec 2018	31 Dec 2017
Payments to the Scheme during the year.	£'000	£'000
Member payments	299	418
Employer payments	20,386	21,443
Additional Voluntary Contributions	589	1,218
Transfers In	246	218
Other net income	49	245
Total	21,569	23,542

Payments from the Scheme during the year.		
Benefits paid (retirements and deaths)	(4,504)	(5,397)
Payments to and on account of leavers	(36,790)	(47,017)
Administration expenses	(114)	(37)
Other Payments	(2)	(2)
Total	(41,410)	(52,453)

How the value of the Scheme has changed		
Net returns on investments	(26,868)	63,263
Net increase in the Scheme's assets	(46,709)	34,352

	31 Dec 2018	31 Dec 2017
Active members	9,413	11,423
Deferred members	17,956	14,126
Total	27,369	25,549

- Active members
- Deferred members

Value of Scheme assets.

	31 Dec 2018 (£)	31 Dec 2017 (£)
Value of Scheme assets	629,273,000	675,982,000

Chair's Annual Governance Statement

The following Statement is an extract from the Report and Accounts 2018 and is a Regulatory requirement.

The intention is to highlight Governance undertaken by the Trustee and give information about fund charges Annual statement regarding governance

Under legislation set out in Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations'), as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Corporate Trustee (the 'Trustee') of the EE Pension Scheme (the 'Scheme') is required to prepare a statement (the 'Statement') on governance for inclusion in the Trustee's annual report.

This document sets out the Statement covering the period 1 January 2018 to 31 December 2018.

The default arrangement

In accordance with the Administration Regulations, the Trustee has appended the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Scheme in compliance with Section 35 of the Pensions Act 1995 (the '1995 Act') and Regulation 2 / Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

The current default arrangement for DC members in all sections of the Scheme is a "Target Retirement Fund" which switches investments to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement. This is known as a Target Drawdown Strategy.

Members who intend to withdraw their retirement benefits in other ways have the option of switching to alternative lifestyle strategies prior to retirement or

even choosing their own investment strategy from the range of fund choices available.

Members are supported by clear communications regarding the aims of the default and the alternative investment options available.

As a result of the introduction of new DC flexible retirement options from 6 April 2015, the Trustee completed a review of the default arrangement. This was carried out in September 2014. In the absence of any substantive market data to support using a default targeting a particular retirement benefit, the Trustee implemented the Target Drawdown Strategy designed for members who want to leave their savings invested at retirement and use income drawdown to withdraw money as needed. The default funds are reviewed annually by Mercer Workplace Savings who manage the funds. The full strategy review was placed on hold during 2017 and 2018 due to a significant project regarding a change of platform by their bundled provider – Zurich. The Trustee is undertaking a review of their default in 2019.

The Trustee has implemented three different Target Retirement Fund strategies, each aimed to be appropriate for a member taking their benefits at retirement as one of three ways:

- Drawdown (Target Drawdown Strategy)
- 75% Annuity purchase, 25% Cash (Target Annuity Strategy)
- 100% Cash (Target Cash Strategy)

Each of these strategies is split into two phases: the Growth phase and the Pre-Retirement Phase. Please see the SIP for further details in relation to the Scheme's default investment option, this covers the aims and objectives in relation to the default investment arrangement as well as policies in relation to matters such as risk and diversification.

The Trustee will keep the investment arrangements under regular review and will amend them as appropriate based on analysis of the likely requirements of the typical Scheme member.

Chair's Annual Governance Statement continued

Requirements for processing financial transactions

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

The Trustee Benefit Committee meets quarterly to monitor the Scheme's administration and management. Included in this are reviewing the Administrator reports to ensure 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 on retirement.

The Scheme's **Risk Register** outlines the main risks to Scheme members and these are monitored and reviewed on a regular basis.

The Trustee has delegated the administration of Scheme member records to Zurich and Equitable Life and has agreed minimum timescales with Zurich for all services, including core financial functions. The administration reports produced by Zurich are reviewed at each quarterly Trustee meeting by the Trustee Directors. The Trustee also receives regular Management Information from Equitable Life for review.

The Schedule of Contributions/Payment Schedule sets out timescales for the Company to remit monthly contributions to the Scheme. However, agreed practice provides for payment of contributions on much shorter timescales, usually within 10 working days.

The Trustee has delegated the day to day investment management of the DC assets to a range of professional investment managers who are accessed through the Zurich investment platform and Equitable Life, with whom the Trustee holds a long-term insurance policy.

The requirements of regulation 24 of the Regulations have been met and core financial transactions have been processed promptly and accurately by:

- Appointing a professional third party administrator, currently Zurich.
- Having in place Service Level Agreements (SLAs) with the administrator which cover all core administration processes, including payment of benefits in respect of members and the transfers of assets into and out of the Scheme.
- Monitoring SLAs on a quarterly basis as part of the review of management information provided by the administrator. The administrator also attends Trustee and operational meetings where appropriate.
- Maintaining a Plan Payment schedule and ensuring robust procedures for the payment and investment of Plan contributions.
- Obtaining an AAF internal controls audit report from the administrator each year.
- Maintaining close working links between the in-house Human Resource and Payroll teams, along with the administrator.
- Monitoring the quality of Plan membership data held by the administrator on an ongoing basis.
- Maintaining and monitoring a risk register which includes risks in relation to core financial transactions.
- Appointing a professional firm, Ernst & Young LLP, to undertake an annual audit.

Chair's Annual Governance Statement continued

Charges and transactions costs

As required by the Administration Regulations, the Trustee is required to report on the charges and transactions costs for the investments used in the default arrangement and their assessment of the extent to which the charges and costs represent good value for members.

The total charges payable (quoted in the following tables as TER – Total Expense Ratio) under the default and alternative lifestyle strategies (will vary depending on the stage that each member has reached in the default arrangement's growth and de-risking process). The tables below and overleaf show the TER of the funds as they currently stand. The TER includes the fees charged by the underlying manager, the platform charge from Zurich and the fee for Mercer Intermediary Services. Note that expenses are a function of the size of the fund and will change over time.

All of the funds used in the default strategy have TERs that fall below the charge cap of 0.75% p.a.

'Do it for me'

Default – Target Drawdown

Phase	Fund	TER (%)
Growth	Mercer Growth Fund	0.46
De-risking	Target Drawdown Series	0.49 – 0.57

TER correct as at 6 August 2018

Target Annuity

Phase	Fund	TER (%)
Growth	Mercer Growth Fund	0.46
De-risking	Target Annuity Series	0.36 – 0.48

TER correct as at 6 August 2018

Target Cash

Phase	Fund	TER (%)
Growth	Mercer Growth Fund	0.46
De-risking	Target Cash Series	0.37 – 0.47

TER correct as at 6 August 2018

'Leave it to me'

The following table provides information on the charges for the self-select investment options as they currently stand, including those funds used in the default, as well as the Target Retirement strategies:

Fund	TER (%)
Growth	0.46
High Growth	0.47
Moderate growth	0.46
Defensive	0.42
Cash and Money Market	0.33
Global Equity (60:40) Fund	0.27
UK Equity Fund	0.27
Overseas Equity Fund	0.27
US Equity Fund	0.27
European (ex-UK) Equity Fund	0.29
Japanese Equity Fund	0.29
Asia Pacific (ex-Japan) Equity Fund	0.29
Emerging Markets Equity Fund	0.48
Diversified Growth Fund	0.53
Diversified Retirement Fund	0.51
Pre-Retirement Fund	0.31
Property Fund	0.97 *
Ethical Fund	0.94
Shariah Fund	0.54
Index-Linked Gilts Fund	0.27
Fixed Interest Gilts Fund	0.27
UK Corporate Fund	0.29

TER correct as at 6 August 2018

Chair's Annual Governance Statement continued

- Trustees are required to disclose investment transaction costs to the extent that they are available and incorporate them into their annual assessment of good member value. The Trustee has been unable to obtain data from Zurich as fund managers have had difficulties providing this information in a consistent format and importantly, in a way that facilitates trustees undertaking a value for members assessment.
- Further guidance and information on how to disclose transaction costs in a standardized, comparable format was provided by the Financial Conduct Authority in September 2017 with the new requirements coming in to force on 3 January 2018. Providers have been working through the required calculations and disclosures and while these are not yet available, it is expected these costs will be available for inclusion in the 2019 Chair's Statement.

Historically, members were able to invest in a With Profits fund managed by Equitable Life Assurance Society ("Equitable Life"). This is now closed to new investment however some members still have a holding in this fund. Due to the way in which With-Profits Funds are structured, any fee is charged as an implicit fee within the Funds and as such, it has not been possible to ascertain the transaction costs for members of the Scheme.

Reporting Costs and Charges

In accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustee has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To make this representative of the membership, the Trustee has based this on a starting pot size of £11,200 as this is the average pot size across all members. For active members, it also assumes an overall contribution level of 10.6% per annum and the average salary of £19,400, whilst for deferred members, no additional contributions are assumed. We have also assumed an annual inflation of 2.5% per annum.

Chair's Annual Governance Statement continued

ACTIVE MEMBERS

Year	Default Fund 0.460 (TER % p.a.)		Least Expensive Fund 0.270 (TER % p.a.)		Most Expensive Fund 0.970 (TER % p.a.)	
	Mercer Growth		Index Linked Gilt Fund		Property Fund	
0	£11,200	£11,200	£11,200	£11,200	£11,200	£11,200
5	£23,989	£23,541	£20,629	£20,406	£23,751	£22,825
10	£38,636	£37,353	£29,595	£29,043	£37,952	£35,352
15	£55,411	£52,810	£38,122	£37,146	£54,018	£48,851
20	£74,623	£70,110	£46,232	£44,749	£72,196	£63,397
25	£96,625	£89,471	£53,944	£51,882	£92,762	£79,072
30	£121,824	£111,140	£61,277	£58,574	£116,031	£95,963
35	£150,684	£135,391	£68,252	£64,853	£142,358	£114,164
40	£183,737	£162,532	£74,884	£70,744	£172,144	£133,778

DEFERRED MEMBERS

Year	Default Fund 0.460 (TER % p.a.)		Least Expensive Fund 0.270 (TER % p.a.)		Most Expensive Fund 0.970 (TER % p.a.)	
	Mercer Growth		Index Linked Gilt Fund		Property Fund	
0	£11,200	£11,000	£11,200	£11,200	£11,200	£11,200
5	£13,171	£12,870	£10,651	£10,508	£12,672	£12,069
10	£15,084	£14,404	£10,129	£9,859	£14,337	£13,005
15	£17,275	£16,121	£9,633	£9,250	£16,221	£14,015
20	£19,785	£18,042	£9,161	£8,678	£18,353	£15,102
25	£22,659	£20,192	£8,712	£8,142	£20,764	£16,274
30	£25,951	£22,599	£8,285	£7,639	£23,493	£17,536
35	£29,721	£25,292	£7,879	£7,167	£26,580	£18,897
40	£34,039	£28,306	£7,492	£6,724	£30,073	£20,363

 Pot size with no charges incurred

 Pot size with charges incurred

NOTES:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Values are estimates and are not guaranteed
- The projected growth rate for each fund are as follows:
 - **Mercer Growth Fund** (Default Fund): 2.75% p.a. gross expected real return
 - **Index Linked Gilt Fund** (Cheapest Fund): -1.0% p.a. gross expected real return
 - **Property Fund** (Most Expensive Fund): 2.5% p.a. gross expected real return
- The Transaction Costs relate to the actual transaction costs incurred in the Plan year

Chair's Annual Governance Statement continued

Value for Money

In accordance with regulation 25(1)(b), the Trustee is 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, relative to peers and alternative arrangements that are available. The Trustee will be completing a detailed review of their provisions in 2019.

The Trustee has previously conducted a Value for Money Assessment in order to assess value for money, incorporating consideration of:

- Investment charges for the default and self-select options – compliance with the charge cap limits
- Transaction costs – information not available for this report
- Net performance
- Other Scheme features
- Scheme governance
- Investment design and range
- Investment manager and platform provider ratings
- Administration

Trustee knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004, requires individual trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the Trustee to exercise the function in question.

The Trustee has undertaken the following:

- The Trustee has worked through the trustee knowledge and understanding requirements set by The Pensions Regulator ("TPR") and keep up to date with ongoing developments.
- The Trustee maintains a programme of Trustee training which includes training delivered as part of Trustee's meetings as well as structured training events and webinars.
- The Trustee maintains a training log to record all training and attendance at suitable external events (e.g. seminars and conferences) and it shows that the Trustees have completed multiple training sessions during the past few years, including specific DC training sessions in 2017.
- The Trustee reviews their training programme at least annually, taking into account the balance and variety of expertise amongst the Trustee.
- The Trustee regularly receives email bulletins and updates from their advisers on the latest developments affecting defined benefit and defined contribution pension schemes.
- The Trustee has paid due consideration to TPR's DC Code of Practice No.13 and undertook an assessment of the Scheme in relation to the Code in June 2017 following publication of the revised DC Code of Practice by TPR.

Chair’s Annual Governance Statement continued

The Trustee will also review and assess, on an ongoing basis, whether the systems, processes and controls across key governance functions are consistent with those set out in the Pensions Regulator’s Code of Practice 13.

The Trustee receive the SIP, Scheme Rules and other relevant documents, together with their Legal Adviser and Investment Consultants, to ensure they have sufficient knowledge and understanding of the law relating to pensions, funding and investment.

Chair’s declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together ‘the Regulations’) and I confirm that the above statement has been produced by the Trustee to the best of my knowledge.

I confirm that the above Statement has been produced by the Trustee to the best of its knowledge.

Signature:

.....

Name:

.....

Position:

Chair of Trustee Directors of the EE Pension Scheme

.....

Date:

.....

Chair's Annual Governance Statement continued

EE Pension Scheme – Equitable Life

This affects older Orange pension scheme funds.

Equitable Life is reviewing their with-profit policies and has a proposal to use available funds to uplift member account values (indications are 60–70%), and transferring their business to a company called Utmost. Should the proposal go ahead, any current terms from these funds (such as guaranteed returns as shown on members statements) will be removed.

This is a matter for the EE Pension Scheme Trustee and members affected do not need to take any action.

What will happen next:

- Schemes need to vote on the Equitable proposal by 30 October – this is a Trustee vote only, and members cannot vote individually.
- The outcome of the Vote will not be known until November.
- A communication will be sent to affected members after the vote is confirmed
- The Trustee will consider advice on the mapping and transfer of the Funds
- A further communication will be sent to affected members to confirm what will be happening to their assets in 2020

Additional information is available at www.equitable.co.uk/media/58231/wp-website-letter-v20.pdf

Please be assured that EE Limited are currently considering the impact on the Scheme's membership and a further communication will be issued shortly to those with Equitable Life investments.



NOTES

A series of horizontal dotted lines for taking notes, starting below the 'NOTES' header and ending above the page number.



Who runs the scheme?

Contacts.

The EE Pension Scheme assets are held in trust and are completely separate from the assets of EE. The trust is operated by EE Pension Trustee Ltd.

Your current Trustee directors are:

Company appointed Directors:
Jonathan Clarke (independent chairman)
Roger Waymouth
Donna Breach
Roger Eyre

Member Nominated Directors:

Carmel Codd
Tony Gara

The EE Pensions team:

Scottish Widows Corporate Savings
The Grange
Bishops Cleeve
Cheltenham
Gloucestershire
GL52 8XX

The Pension Scheme administrator:

eeserviceteam@scottishwidows.co.uk
0800 389 9160

Your Pension Details

Expression of Wish

Please remember to keep your Expression of Wish form up to date. This is important to ensure that the Trustee and HR are aware of your dependants in the event of your death.

If you work for EE, you can update the form on

Your Rewards

If you no longer work for EE you can contact the administrator Scottish Widows.

Address

Please let Scottish Widows know if you change your address (if you also have DB benefits you'll need to let Capita know too).