



STENA DRILLING LIMITED MONEY PURCHASE SCHEME THE CHAIRMAN'S STATEMENT REGARDING DC GOVERNANCE: 6 APRIL 2018 – 5 APRIL 2019

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Administration Regulations"), as amended by subsequent legislation. It explains how the Stena Drilling Limited Money Purchase Scheme ("the Scheme") is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (i.e. Defined Contribution schemes – DC).

Default arrangement

Members of the Scheme who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement chosen by the Trustee Directors with the advice of their Investment Consultant.

This strategy can be illustrated using the following table:

5 Year Lifestyle			
Years to Target Retirement Age	Baillie Gifford Diversified Growth Fund	Prudential Long Term Bond Fund	Prudential Cash Fund
0	0%	75%	25%
1	20%	70%	10%
2	40%	60%	0%
3	60%	40%	0%
4	80%	20%	0%
5	100%	0%	0%
>5	100%	0%	0%

The Trustees carried out a review of the default investment strategy in May 2018 and concluded that the arrangement and fund returns are consistent with the aims and objectives mentioned below. The review confirmed the current strategy to be suitable, given the investment arrangements and value for money, therefore, no changes were required. We have considered the impact of performance on different groups of members within the Scheme and we are satisfied that it is on target for all groups. The Statement of Investment Principles ("SIP") will be reviewed as a minimum every three years or as soon as any significant developments in investment policy or member demographics take place. The investment performance of the funds available to members is reviewed by the Trustee Directors, with the assistance of their Investment Consultant, every quarter.

Up until 5 years before target retirement age, the default option invests in a diversified growth fund which aims to provide growth whilst controlling risk. The Trustee Directors believe that this provides a suitable growth stage for Scheme members. From 5 years to target retirement age, the funds are gradually switched into funds which aim to reduce risk for members who wish to purchase an annuity and take a cash lump sum at retirement. The Trustee Directors consider that providing a stable income in retirement is the most suitable outcome for members who do not make an active decision on how they wish to take their retirement benefits.

The default arrangement is described in further detail in the Scheme's SIP which was last reviewed by the Trustee Directors in September 2019 and a copy of which is attached to this governance statement.



The Trustee Directors have set up processes to publish relevant information on the default arrangement by publishing the SIP online at the following URL:

<https://s3-eu-west-1.amazonaws.com/stenadrillingmediabank/stena/wp-content/uploads/2019/09/25145935/SDL-MPS-SIP-Seventh-Edition.pdf>

and they will notify members about this in their annual benefit statements.

Processing Scheme transactions

The Trustee Directors have a specific duty to ensure that core financial transactions relating to the Scheme are processed promptly and accurately. These include 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.

These transactions are undertaken on the Trustee Directors' behalf by the Scheme administrator, Prudential, and its investment manager Prudential. The Trustee Directors periodically review the processes and controls implemented by Prudential, and consider them to be suitably designed to achieve these objectives. The Trustee Directors have a service level agreement (SLA) in place with the Scheme administrator which covers the accuracy and timeliness of all core transactions and they receive regular reports to monitor the performance against those service levels. The processes adopted by the Scheme administrator to help meet the SLA include dynamics checklists, a central financial control team separate to the admin team, peer checking and authorisation of payments, automated reporting of late contributions, daily monitoring of bank accounts, daily checking and reconciliation of member unit holdings, and a dedicated contribution processing team. During the period covered by this statement, 81% of work was completed within the agreed service levels. There were some issues relating to the processing of Scheme transactions. Some delays were experienced in quarter 3, 2018 with some tasks slipping into day 6,7 and 8 however the position improved into quarter 4 and fully recovered in quarter 1 2019. One of the areas where the performance was slipping into day 6 was leavers and a change in process was implemented in quarter 4 to ensure these tasks will be completed within the 5 day SLA going forward and this was evident in Q1 2019. We continue to monitor performance against the SLA on a regular basis.

We will also perform periodic assessments of methods and efficiency of the Scheme's administrators and will challenge them in terms of efficiency using available facilities including technological functionality.

In light of the above, the Trustee Directors consider that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

Charges and transaction costs – default arrangement and additional funds

The law requires the Trustee Directors to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members. These transaction costs are not limited to the ongoing charges on member funds, but should also include trading costs incurred within such funds. We have taken account of statutory guidance when preparing this section of the report.

The Total Expense Ratios (TERs) combine the amount known as the Annual Management Charge and any additional expenses necessary for running the fund, but this figure excludes transaction costs.

Details of the TER payable for each fund as well as the transaction costs within the default arrangement are as follows:

Fund	TER (%)	Transaction Cost (%)
Prudential Baillie Gifford Diversified Growth Series 3	0.75	0.62
Prudential Cash Series 3	0.25	0.00
Prudential Long Term Bond Series 3	0.15	0.12

Source: Prudential

None of the funds used in the default strategy are higher than the maximum TER allowed of 0.75% for default arrangements.



The Trustee Directors also make available a range of funds which may be chosen by members as an alternative to the default arrangement. These funds allow members to take a more tailored approach to managing their own pension investments and attract annual charges and transaction costs as follows:

Fund	TER (%)	Transaction Cost (%)
Prudential All Stocks Corporate Bond Series 3	0.25	-0.10
Prudential Baillie Gifford Overseas Equity Pension Fund Series 3	0.50	n/a
Prudential BlackRock Aquila (30:70) Currency Hedged Global Equity Index Series 3	0.30	0.06
Prudential BlackRock Aquila Emerging Market Equity Pension Fund Series 3	0.40	0.19
Prudential Discretionary Fund Series 3	0.25	-0.07
Prudential Dynamic Growth I	0.23	0.08
Prudential Dynamic Growth II	0.22	0.07
Prudential Dynamic Growth III	0.22	0.04
Prudential Dynamic Growth IV	0.22	0.03
Prudential Dynamic Growth V	0.23	-0.01
Prudential Europe Passive Series 3	0.17	0.38
Prudential Fixed Interest Fund Series 3	0.25	-0.10
Prudential Global Equity Fund Series 3	0.25	-0.04
Prudential HSBC Amanah Global Equity Index Series 3	0.40	n/a
Prudential International Equity Series 3	0.27	0.08
Prudential Japan Passive Series 3	0.18	-0.20
Prudential LGIM Ethical Global Equity Index (non-wrapped) Series 3	0.45	n/a
Prudential LGIM Ethical UK Equity Index (non-wrapped) Series 3	0.25	n/a
Prudential M&G Recovery Series 3	0.25	-0.06
Prudential M&G UK Equity Pension Fund Series 3	0.26	-0.04
Prudential Newton UK Equity Pension Fund Series 3	0.50	0.31
Prudential North America Passive Series 3	0.15	-0.01
Prudential Pacific Basin ex Japan Equity Passive Fund Series 3	0.19	0.02
Prudential Schroder QEP Global Core Fund Series 3	0.40	n/a
Prudential Threadneedle Property Life Series 3	1.67	n/a
Prudential UK Property Series 3	0.82	0.26
Prudential UK Smaller Companies Series 3	0.26	0.50

Source: Prudential

N/A indicates that data on the charge was not available at the time of producing this statement, The Trustee Directors will continue to follow up with the investment manager to provide this information.

The transaction costs have been provided by Prudential and have been calculated using what is known as the "slippage" methodology. This means that the transaction costs represent the difference between the expected trading price of a security within a fund and the price at which the trade is actually executed (typically a trade is executed a few working days after an order is placed). Therefore, in a buy order, for example, if the execution price is less than the expected price, a transaction cost may be negative.

The 0.75% fee cap only applies to the default arrangement, hence some of the funds above exceed this level.

We are comfortable that the costs for the default arrangement and self-select funds are reasonable both in terms of the outcomes the funds are targeting and the fees in the wider market applicable to similar investment strategies.



Cumulative effect of charges

The compounding effect of charges on an active member's fund can be illustrated as follows:

Illustrations for an "Average" member										
Years from now	Default Strategy (the most popular fund)		Prudential North America Passive Series 3 (least expensive fund)		Prudential Cash Series 3 (lowest expected return fund)		Prudential Threadneedle Property Life Series 3 (most expensive fund)		Prudential BlackRock Aquila Emerging Market Equity Pension Fund Series 3 (highest expected return fund)	
	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted
1	£63,746	£62,938	£64,319	£64,236	£61,452	£61,307	£63,516	£62,534	£64,778	£64,427
3	£81,085	£78,278	£83,121	£82,825	£73,292	£72,820	£80,280	£76,899	£84,777	£83,509
5	£99,453	£94,098	£103,420	£102,838	£84,903	£84,054	£97,905	£91,514	£106,693	£104,183
10	£150,291	£135,849	£161,516	£159,842	£112,952	£110,958	£146,031	£129,172	£171,119	£163,727
15	£209,017	£180,946	£231,869	£228,403	£139,660	£136,260	£200,579	£168,489	£252,111	£236,474
20	£271,937	£227,009	£317,063	£310,867	£165,090	£160,053	£262,405	£209,538	£353,928	£325,348
22 (retirement)	£289,000	£240,661	£355,976	£348,358	£174,918	£169,169	£289,387	£226,459	£401,642	£366,190
Total Fees	£38,939		£5,554		£6,250		£50,616		£24,231	



Illustrations for a "Young" member

Years from now	Default Strategy (most popular fund)		Prudential North America Passive Series 3 (least expensive fund)		Prudential Cash Series 3 (lowest expected return fund)		Prudential Threadneedle Property Life Series 3 (most expensive fund)		Prudential BlackRock Aquila Emerging Market Equity Pension Fund Series 3 (highest expected return fund)	
	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted	Before charges	Before charges	Before charges	After charges and costs deducted	Before charges	After charges and costs deducted
1	£29,214	£28,853	£29,471	£29,434	£28,186	£28,122	£29,112	£28,671	£29,677	£29,520
3	£39,696	£38,384	£40,648	£40,509	£36,051	£35,829	£39,320	£37,739	£41,421	£40,829
5	£50,801	£48,214	£52,714	£52,433	£43,762	£43,350	£50,053	£46,964	£54,291	£53,082
10	£81,533	£74,156	£87,248	£86,396	£62,392	£61,363	£79,360	£70,735	£92,125	£88,372
15	£117,034	£102,177	£129,067	£127,246	£80,131	£78,302	£112,578	£95,553	£139,686	£131,486
20	£158,044	£132,443	£179,709	£176,377	£97,021	£94,232	£150,227	£121,463	£199,478	£184,159
25	£205,417	£165,134	£241,033	£235,471	£113,103	£109,213	£192,901	£148,516	£274,642	£248,510
30	£260,140	£200,445	£315,294	£306,547	£128,416	£123,300	£241,268	£176,759	£369,134	£327,129
37 (retirement)	£330,570	£244,813	£446,297	£430,901	£148,631	£141,624	£320,013	£218,402	£543,591	£467,316
Total Fees	£59,407		£9,356		£7,992		£71,511		£41,753	

It could be helpful to provide the context for the investment returns and charges presented above. If savings were not invested at all (i.e. there were no investment returns or fees) then, according to our modelling, the value of the "Average" and "Younger" members' pots at retirement would be £143,905 and £112,715 respectively in today's money.



Assumptions

The above illustrations have been produced for an "average" member and a "young" member of the Scheme based on the Scheme's membership data. The "Default Strategy" illustration assumes the member's asset allocation remains fully invested in the current default strategy. The individual fund illustrations assume 100% of the member's assets are invested in that fund up to the Scheme's normal retirement age. The results are presented in real terms, i.e. in today's money, to help members have a better understanding of what their pension pot could buy in today's terms, should they invest in the funds above as shown.

The Total Fees figure is lower than the difference between the projected fund value before and after fees. The total fee reflects what has actually been taken from the fund to pay for the management of assets and other expenses, whereas the difference between before and after fee projected fund values reflects the effect of compounding.

Age	
<ul style="list-style-type: none"> • "Average" member • "Young" member 	<p>43 (<i>the average age of the Scheme's membership</i>)</p> <p>28 (<i>the average age of the youngest 10% of members</i>)</p>
Scheme Retirement Age	65
Starting Fund Size	
<ul style="list-style-type: none"> • "Average" member • "Young" member 	<p>£55,444 (<i>the median fund size of the Scheme's membership</i>)</p> <p>£24,196 (<i>the median fund size for the youngest 10% of members</i>)</p>
Starting Salary	
<ul style="list-style-type: none"> • "Average" member • "Young" member 	<p>£65,000 (<i>the median salary of the Scheme's membership</i>)</p> <p>£41,949 (<i>the median salary for the youngest 10% of members</i>)</p>
Inflation	2.5% p.a.
Rate of Salary Growth	2.5% p.a.
Employer annual contributions	5% p.a.
Employee annual contributions	5% p.a.
Expected future nominal returns on investment:	
<ul style="list-style-type: none"> • Default Strategy <ul style="list-style-type: none"> ○ Prudential Baillie Gifford Diversified Growth Series 3 ○ Prudential Cash Series 3 ○ Prudential Long Term Bond Series 3 • Prudential North America Passive Series 3 • Prudential Threadneedle Property Life Series 3 • Prudential BlackRock Aquila Emerging Market Equity Pension Fund Series 3 	<p>3.0% above inflation</p> <p>-1.0% above inflation</p> <p>-0.2% above inflation</p> <p>4.0% above inflation</p> <p>2.6% above inflation</p> <p>4.8% above inflation</p>



Value for members

A formal value for money assessment was carried out in June 2018. Having considered the content of that assessment the Trustee Directors concluded that the Scheme continues to offer value for members. The Trustee Directors have a good understanding of the membership demographics of the Scheme and as such have a view as to what good member outcomes should look like for the Scheme's members in aggregate. The Trustee Directors understand that value for money does not necessarily mean selecting the cheapest solution and in our ongoing reviews of value for money we consider many factors including quality of customer service, member communications and support, the efficiency of administration services, the robustness of scheme governance, fund management and performance of the funds. With this in mind, based on the latest value for money assessment the Trustee Directors are satisfied that they have negotiated a good deal for members and that the stated explicit charges for the Scheme's funds represent good value for money in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile.

The Trustee Directors have set up processes to publish relevant information on the costs and charges of the default arrangement and self-select funds by publishing the annual chairman's statement on this website and they will notify members about this in their annual benefit statements.

Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of the scheme's assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pensions Regulator's Codes of Practice 07 and 13.

The Trustee Directors have put in place arrangements for ensuring that we take personal responsibility for keeping ourselves up-to-date with relevant developments and carry out a self-assessment of training needs to help identify any knowledge gaps. The Secretary to the Trustees reviews the self-assessments and arranges for training to be made available to individual Trustee Directors or to the Trustee body as appropriate.

Over the last year, the Trustee Directors have received training on GDPR, money laundering, DC Chairman Statements, ESG issues and the DC market. In addition, the Trustee Directors receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

All new Trustee Directors are required to attend an external Trustee Training course.

All of the existing Trustee Directors are completing the Pensions Regulator's Trustee Toolkit. The Trustee Directors are also required to familiarise themselves with the Scheme's trust deed, rules and Statement of Investment Principles. Training sessions led by the Scheme's professional advisers are held in conjunction with each regular meeting of the Trustee Directors.

The SIP has been referred to by the Trustee Directors on a number of occasions during the year, given the reviews of the default strategy and value for money that have been carried out. Throughout the year, the Trustee Directors have demonstrated a working knowledge of the Trust Deed and Rules dealing with specific issues as they arose. The Trustee Directors have prepared a comprehensive data strategy policy which documents the procedures that are in place to comply with the GDPR requirements.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to us, the Trustee Directors consider that we are enabled properly to exercise our functions as Directors of the Trustee company.

In addition, while most schemes simply focus on trustee training and use of advisers, we believe that knowledge and understanding should also be extended to awareness of member demographics and member behaviour otherwise trustees cannot be certain that a scheme remains fit for purpose.

Given the extent of the training above, the Trustee Directors are comfortable that we have demonstrated sufficient knowledge of the law relating to pension schemes and trusts and the principles relating to the funding and investment of pension schemes. I am also satisfied that the Trustee Directors have demonstrated a working knowledge of the Scheme's trust deed and rules, Statement of Investment Principles and all other documents setting out the Trustee Directors' current policies.



This Chairman's statement regarding DC governance was approved by the Trustee Directors and signed on their behalf by:

A handwritten signature in black ink, appearing to read 'Stuart M Wyness', with a long horizontal stroke extending to the right.

Stuart M Wyness

Chairman of the Trustee

Date: 30 SEPTEMBER 2019

Attachment: Latest Statement of Investment Principles