# Chair's Annual Report

Aviva Master Trust ('the Scheme')
March 2018

Retirement
Investments
Insurance
Health

AVIVA

# Contents

# 1. Introduction

The Trustees of defined contribution pension schemes such as your Scheme are required to produce an Annual Statement, signed by their Chair, setting out a number of prescribed criteria. This is the Scheme's March 2018 Annual Statement.

Following the acquisition of Friends Life by Aviva in 2015, the Scheme changed its name to "Aviva Master Trust" at the start of October 2017. The Sponsor of the Trust changed to Aviva Life & Pensions UK Limited.  The Trustees were very happy with the change of Sponsor given the financial strength of Aviva and their standing in the UK pensions' market.

The Trustees are pleased to outline the steps they have taken to ensure that the Scheme is run as well as possible and in accordance with the latest rules on governance and industry best practice.

# 2. The default investment strategy

The Scheme has a main default investment fund (Aviva My Future default fund) which is provided for members who do not choose their own investment funds upon joining the Scheme. Default funds are common place in the market and are a requirement for auto enrolment purposes and are offered by all other pension providers that are similar to the Scheme.

KPMG advise the Trustees on the suitability of this default fund which is designed for a varied membership across different employers. They also advise on the range of other funds in which members can choose to invest.

At the request of some employers, certain sections of the Scheme have different default funds and other funds for member selection. In each such section the employer and Trustees receive advice on the suitability of the default fund and the investment ranges from an investment adviser appointed specifically to advise the Trustees for that section. All of these sections were new in the year to which this Statement relates so advice was received and decisions taken on their suitability during the year.

The vast majority of members are invested in the main default fund. Some members actively choose to invest in the default fund as it matches their requirements in terms of risk and returns; however, most members do not make an active investment choice and are therefore placed in the default fund.

Members who are invested in the default fund are written to 15 years before their selected retirement date and asked to select their intended method of receiving their pension savings in retirement. There are three investment options which either target cash, drawdown or an annuity. If no investment option is chosen, the member remains in the default fund. The member does not have to take their pension savings at their selected retirement date and can currently use any method permitted by legislation of receiving their pension savings in retirement – the selection of an intended method of receiving pension savings is merely an indication which directs their investments into default investment funds which target one of the three investment options.

The default investment fund was reviewed again in early 2018. It was concluded that the main default fund remained suitable and well designed for the broad Scheme membership with the pattern of automatic risk reduction in asset category allocation close to the member's selected retirement age appropriate for the potential patterns of drawing benefits in retirement. The review allowed for performance, volatility measures, costs, expectations and comparisons with other Master Trusts and other options available.

Nonetheless, the Trustees agreed, having taken appropriate advice, that the main default fund could be evolved over time to increase investment efficiency with slightly more diversification in the growth phases and also a different investment structure; even though it remained suitable in the meantime. This move to a new default fund is in the progress of preparation for implementation in the coming year.

The principles governing how decisions about investments must be made are detailed in the Scheme's Statement of Investment Principles (SIP). A copy of the SIP for the default investment fund is attached to this report as Appendix 1. The statement gives details of the current default investment fund (prior to the forthcoming planned change) and other funds which members can select from. When the default investment fund is changed then a new updated SIP will be prepared.

The SIP was last reviewed by the Trustees and their advisers in September 2018. It is reviewed, at a minimum, every three years or when a significant change is made to the investment policy.

On 6 April 2018 new regulations came into force which potentially affects the classification of default funds for members who have been transferred into the Scheme following a bulk transfer of their benefits but without their consent being obtained. As these regulations came into force after the Scheme year, the Trustees are considering the appropriate action to take so the necessary reporting can be made in next year's statement. For completeness it should be noted that this issue only affects a very small number of members

The Trustees are provided with quarterly Investment Reports which allows the Trustees and their advisers to monitor the performance of the investment funds offered by the Scheme.

| Name of Fund | 1 Year | 3 Years (per year) | 5 Years (per year) |
|---|---|---|---|
| **My Future Growth** | 6.7% | 10.9% | 9.9% |
| **My Future Growth Benchmark** | | | |
| LIBOR GBP 3m +4% | 4.5% | 4.5% | 4.5% |
| ABI Mixed Investment 40% 85% Shares | 4.5% | 7.7% | 7.4% |

| Name of Fund | 1 Year | 3 Years (per year) | 5 Years (per year) |
|---|---|---|---|
| **My Future Annuity** | 2.0% | 6.1% | 6.7% |
| **My Future Annuity Benchmark** | | | |
| Benchmark | 1.7% | 5.9% | 6.5% |

| Name of Fund | 1 Year | 3 Years (per year) | 5 Years (per year) |
|---|---|---|---|
| **My Future Consolidation** | 2.0% | 4.0% | 6.4% |
| **My Future Consolidation Benchmark** | | | |
| LIBOR GBP 3m +1% | 1.5% | 1.5% | 1.5% |
| ABI Mixed Investment 0% 35% Shares | 1.2% | 4.2% | 4.7% |

| Name of Fund | 1 Year | 3 Years (per year) | 5 Years (per year) |
|---|---|---|---|
| **My Future Cash Lump Sum** | 0.4% | 1.6% | - |
| **My Future Cash Lump Benchmark** | | | |
| LIBOR GBP 3 Months | 0.50% | 0.50% | - |

| Name of Fund | 1 Year | 3 Years (per year) | 5 Years (per year) |
|---|---|---|---|
| **My Future Drawdown** | 4.2% | 8.7% | - |
| **My Future Drawdown Benchmark** | | | |
| LIBOR GBP 3m +2% | 2.5% | 2.5% | - |
| ABI Mixed Investment 20% 60% Shares | 2.2% | 5.2% | - |

# 3. Core financial transactions

During the year, the Trustees are required to make sure the core financial transactions of the Scheme were processed promptly and accurately. This includes the investment of contributions to the Scheme, the transfer of assets relating to members into and out of the Scheme, the transfer of assets relating to members between different investments within the Scheme and payments from the Scheme to, or in respect of, members and beneficiaries. The Trustees have ensured this by:

- Undertaking a site visit early in 2018 by the Trustees to the administration centre to view the administration processes;
- Having a further site visit by the Trustee Board to see more detail on systems and processes and to discuss all aspects of servicing with Aviva;
- Having an agreement with their administrator (Aviva) committing them to defined service level agreements ("SLAs") and the accuracy and timeliness of transactions;
- Monitoring the evolution of SLAs away from merely target turnaround times for different types of administrative tasks to further measures including proportions of cases dealt with on the first point of contact;
- Reviewing the quarterly reports provided by Aviva on their performance against SLAs. It is worth noting that Aviva has improved the reporting on both of the administration platforms used by Aviva Master Trust following feedback from the Trustees;
- Having regular discussions with Aviva about procedures and processes for swift investment of all contributions, switches between investment funds, payments of funds and all other financial transactions;
- Reviewing any complaints received from the membership to see if there are any concerns with the administration provided. Where there are, we will ask Aviva to adapt any administration processes where appropriate;
- Having the Scheme auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process;
- Confirming Aviva has its own internal quality control processes to ensure the accuracy of transactions and putting in place a process to monitor this;
- Having an external auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual AAF process. As a result, the Trustees have held a series of meetings with the AAF auditor to drill further into specific processes.

I am pleased to confirm that in the last Scheme year there have been no material administration service issues which need to be reported by the Trustees.

The processes adopted include the daily monitoring of bank accounts, dedicated teams for various functions and all financial transactions within the dedicated teams are checked and authorised in accordance with a number of agreed protocols.

# 4. Regulatory requirements

## GDPR and Cyber Security

From May 2018 legislation surrounding the protection of personal data has changed. The Trustees and Aviva undertook a significant project, along with the Scheme advisers, to ensure compliance with the new, more stringent, regulations. As a core component, security of information and cyber security are critical issues for the Trustees. The Trustees have examined both Aviva's procedures regarding data security as well as their own. The Trustees have also received specific cyber security training provided by Aviva.

The Trustees are pleased to report that Aviva is taking all reasonable steps, including external testing and advice at the present time. This will remain a key area for ongoing examination.

## Master Trust Assurance Framework and Pension Quality Mark Ready

The Pensions Regulator (tPR) admitted the Scheme to the Master Trust Assurance Framework in 2018. This was achieved through an external audit confirming that governance policies and procedures were in place and being followed as defined by the auditors requiring the scheme to meet the Assurance Framework in 2018. The Trustees welcome the commitment of Aviva to this process which gives governance assurance to members and employers. In 2018 the Scheme and Aviva completed the "second stage audit" of AAF which is a further external audit examining the operation of the defined governance policies and procedures and their adherence and effectiveness in the preceding year.

The Framework involves many requirements of the Trustee Board itself, as well as Aviva as administrator of the Scheme. The Trustees are pleased to report the successful completion of this audit.

The Scheme has also again passed the assessment for the Pension Quality Mark Ready accreditation in 2018. The standards are demanding and assess additional areas to those covered by the Pensions Regulator Master Trust Assurance Framework. They focus on the governance standards in relation to the Trustees, default investment strategy and charges as well as the standard of initial, ongoing and retirement communications to members.

# 5. Charges and transaction costs

There are a range of charges for the default investment funds depending upon which default fund members are invested and the level of the Scheme charge negotiated by the employer.

The total charges (excluding transaction costs) for the main default investment fund (Aviva My Future default fund) and scheme charge range are noted below along with the total charges (excluding transaction costs) for default funds for sections of the Scheme with other investment defaults as at 31 March 2018.

| Fund | AMC range |
|---|---|
| Aviva My Future default fund | 0.18% – 0.75% |
| Bespoke default funds | 0.25% – 0.67% |

The Trustees can confirm that all the default investment funds were within the charge cap, set out in legislation, of a maximum of 0.75% of funds under management since April 2015.

As well as the default funds, we offer a range of self-select funds for member’s to invest in.

| Fund | AMC range |
|---|---|
| Scheme generic self-select fund range | 0.15% – 1.35% |

Legislation does not set a charge cap in relation to the above self-select investment funds.

The Trustees have rated these direct charges as “very good” in relation to value for members. KPMG, who provided independent advice to the Trustees on good value, agreed with this assessment.

The Trustees and Aviva have approached the investment fund managers to obtain details of the transaction costs applicable to the investment funds. These are costs incurred by the investment funds in their operation and transactions which are paid from the investment funds and, therefore, borne by members.

Information has been provided by most investment managers for the majority of funds for 2017. The particular methodology for the calculation of transaction costs specified by the Financial Conduct Authority (FCA) to apply from 3 January 2018 onwards has not been used for all funds. Therefore, some different methods are within the figures quoted meaning they are not all strictly comparable. The Trustees will expect all investment managers to provide information next year based on the specific FCA prescribed methodology for inclusion in the 2019 report.

However, there is a significant amount of information available which is specified in the following table. These figures show generally low transaction costs being incurred across nearly all funds including the main default investment fund.

In future years the Trustees will be showing the impact of all costs on member funds following the statutory guidance.

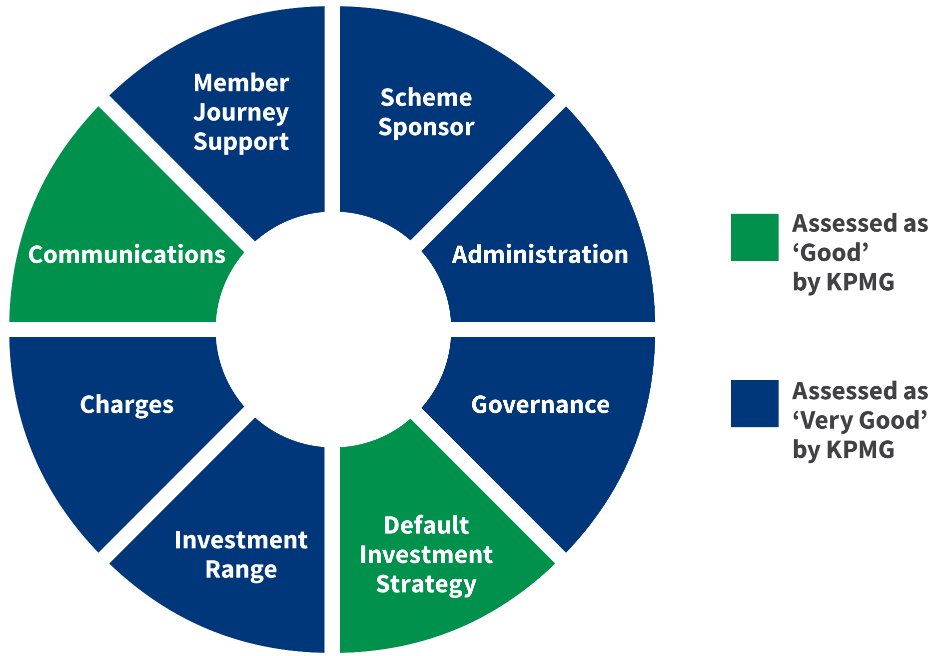
Some funds have negative costs quoted – this is possible under the FCA prescribed methodology due to investment market movements between the time a transaction order is instructed and its implementation.

A table of the transaction costs can be seen in Appendix 2.

# 6. Good Value Assessment

The Trustees are required to undertake a "good value" assessment for the Scheme. Good value encompasses the value of all features and benefits of the Scheme relating to any costs incurred by Scheme members, including both direct and indirect costs. The cost of the Trustee board and advice to the Trustee board is borne by the Sponsor and not the members. It is worth noting that when the Trustees are assessing good value it is not just the costs that are reviewed but all factors which feed into the members' experience. Currently there is no legislation in place on how "good value" should be assessed and what criteria should be reviewed as part of the assessment. The Trustees have discussed what elements should be considered in the Scheme and have carried out a formal "good value" assessment focusing on member charges and other agreed criteria.

The Trustees have therefore assessed charges paid by members as far as possible in the wider context of a variety of other features. Accordingly, the Trustees assessed the Scheme in 8 broad categories, each of which contains several components. The Trustees have taken independent advice from KPMG regarding their assessment of good value to provide input on the method and the Trustees' analysis. KPMG also provided a contextual assessment against other similar master trust pension schemes. The overall conclusion of the assessment is that the Scheme is providing very good value for members as can be seen from the following chart:



## KPMG Good Value Summary

The independent assessment from KPMG supplementing the Trustees' own assessment helps determine areas for further development in the coming year.

**Scheme Sponsor – Very Good** – The Scheme Sponsor (Aviva) continues to have strong financial strength and durability to continue to invest and grow in the UK DC market.

**Administration – Very Good** – Aviva continue to have procedures in place for cash flow with SLAs in place for money handling as well as having an Internal Dispute Resolution Procedure which is reviewed annually in addition to a complaints process. Quarterly administration reports are provided to the Trustee board and feedback on improvements has been actioned by Aviva. The high standard of the administration of the Scheme has been validated by the AAF 02/07 and PQM Ready accreditation.

**Governance – Very Good** – The Independent Trustees have a broad knowledge base with many years of experience in the pensions industry covering actuarial, investments, scheme secretariat, legal, communications and pension's management for DC Schemes. This is also supported by the independent governance carried out by Aviva. The high levels of governance of the scheme have also been validated via the AAF 02/07 and PQM Ready accreditations.

**Default Investment Strategy – Good** - KPMG have carried out their annual investment performance review in 2018 and continue to remain comfortable that it is in line with their thinking around flexible retirement defaults and broader trends they have seen in the marketplace.

**Investment Range – Very Good** – An appropriate and excellent fund range offered to members with the alternative My Future Lifetime Investment Programmes available to meet the new flexibilities with the aim of members achieving their chosen retirement outcome. There are funds available in a broad range of asset classes in addition to specialist Ethical and Sharia funds. The Trustees also have a flexible approach where employers wish to have their own default fund.

**Charges – Very Good** – KPMG rate this aspect as "Very Good" based on their experience of recent Master Trust selection exercises.

**Communications - Good** – Communications are compliant and accurate and are reviewed by the Trustees on a regular basis.

**Member Journey Support – Very Good** – Support at retirement is available to members through various channels, with Flexible Access Drawdown and drawdown available. Work has been done in regard to the broader options available to members at retirement, evidenced by the addition of the digital workplace proposition and advice proposition to the members' options, which will continue.

Two areas of the Value for Members Assessment have moved from being 'Good' in the 2017 assessment to 'Very Good' in the 2018 assessment: Charges and Member Journey Support.

The charges paid by members were compared by KPMG against charges they have seen through their experience in the Master Trust market and in KPMG's opinion these charges were very good in comparison to the market and Aviva's key competitors, particularly where a Scheme had substantial assets under management.

Member Journey Support is a new criteria for 2018 and replaced 'Support At Retirement' from the 2017 assessment. The Trustees felt that the entire member journey is equally important to members so for the 2018 assessment the full member journey was assessed. Aviva, with the support of the Trustees, continue to develop the options available to members and notable highlights in the past year are the development of the member portal as well as the availability of advice and guidance to members.

**Knowledge and Understanding of the Trustees**

The Scheme is overseen by a Trustee board of four independent Trustees: PTL (represented by Colin Richardson as Chair), Wrigleys Pensions Trustees Limited (Represented by Rebecca Cooke), Anne Hunt and Jonathan Parker.

The Trustees are drawn from a variety of specialist pension's backgrounds with skills and knowledge which complement each other and provide a diverse Trustee Board. All the Trustees have worked within UK pensions in various capacities for a considerable time and have wide general pension's knowledge. All the Trustees have completed the Pensions Regulator's trustee toolkit.

PTL, represented by Colin Richardson, chair the Board and is a specialist provider of independent governance services. PTL act as an independent trustee on a variety of trust-based pension schemes and also sit on a number of Master Trust Boards. Colin is a qualified actuary and previously worked for a number of pension benefit consultants. He has significant DC trustee experience with DC Master Trusts, single employer trusts and hybrid schemes. Colin also sits on governance committees for contract based arrangements and holds the Pensions Management Institute Trustee Certificate. Colin is also a member of the Pension and Lifetime Savings Association Defined Benefit Council, The Pension Regulator's working party for standards of professional trusteeship and was noted Professional DC Trustee of the Year at the Pensions Insight DC Awards in November 2017.

Wrigleys Pensions Trustees Limited (WPTL) is represented by Rebecca Cooke. WPTL is part of Wrigleys LLP, a law firm with a specialist pension's law team. Rebecca is a qualified lawyer with extensive pension's legal experience.

Anne Hunt is an experienced pensions consultant and independent trustee who has worked in a variety of roles including senior pensions management positions. Anne has been a member of the Pensions and Lifetime Savings Association DC Council amongst other roles.

Jonathan Parker has worked in the workplace pensions and savings industry for over 15 years. He is currently a director in Redington's DC & Savings team as well as an being an independent trustee of the Master Trust. Prior to these roles, Jonathan held senior positions in insurance, consulting and asset management, and also set up his own consultancy business.

The Trustees recognise the importance of training and development. All the Trustees undertake a minimum level of Continual Professional Development each year either as part of their professional background or on a voluntary basis. Each Trustee maintains a log of both required and voluntary training.

All the Trustees undertake a yearly detailed self-assessment of specific knowledge and experience relating to DC pension schemes and DC Master Trusts in particular to assess their knowledge and understanding and also to ensure that the skills on the trustee board are appropriate given the business plan of the Sponsor. From this an analysis of any individual gaps and collective knowledge is assessed and a training programme is outlined for the year ahead. This programme takes into account specific areas of development for individual Trustees and issues the Trustees will expect to address in running the Scheme in the year ahead.

During the year, the Trustee training and professional development has included training on the proposed standards for professional trustees, conflicts of interest, challenging of advice, Master Trust authorisation, transaction costs, ethical and social investing, cyber security, GDPR and data protection, communications and digital strategy, default investment design and structures, modelling limitations, pensions taxation, money laundering and asset security.

Training has taken place and more is scheduled to address Master Trust authorisation, investment default structures, ethical and social investing and pension scheme administration processing.

The Trustees have also undertaken a self evaluation review during the year in question. The review was facilitated through a bespoke questionnaire completed by all the Trustees. Appropriate findings have been incorporated into training plans for the coming year.

The Trustees also receive professional advice in reviewing the performance and governance of the Scheme in line with the Trust Deed and Rules. The advice received by the Trustees along with their own experience and training allows them to properly exercise their duties as a Trustee.

A site visit is due to be conducted annually by the whole Trustee Board, starting in September 2018, to review processes and procedures being applied by Aviva as the administrator of the Master Trust.

All of the Trustees have a working knowledge of the documents governing the Scheme, including the Trust Deed and Rules and the Statement of Investment Principles. Having legal expertise on the board of the Trustees supports this position. The Trustees keep all such documents under review with:

- The Statement of Investment Principles to be reviewed in September 2018.
- A new consolidated trust deed and rules being prepared
- All other trustee policies being reviewed annually.

**Independence of Trustees**

All of the Trustees including the Chair were during the year independent of any undertaking which provides advisory, administration, investment or other services to the Scheme. All trustees are classified as non-affiliated for the purposes of the Regulations.

Any potential conflicts are recorded in a Conflict of Interests log and considered by the Trustees in accordance with their Conflict of Interests Policy.

In December 2017 Jonathan Parker was appointed as a further trustee following an assessment of the skills required to run the Trust given the growth and development in recent years. It was concluded that the Trust would benefit from increased skills and knowledge in the investment arena and a search was undertaken for a further trustee. There was an open and transparent recruitment process including advertising in the national pension press, a review of a considerable number of applications and an interview process with both Aviva and the Chair of Trustees. This process included considerations of the experience required to supplement the existing Trustees and to fulfil the role for the Scheme. This process was concluded with the appointment of Jonathan Parker.

**Views of the Members**

The Trustees have set up an email address, MTfeedback@aviva.com, to encourage members of the Scheme, or their representatives, to make their views known to the Trustees. This is monitored by the Scheme Sponsor and representations forwarded to the Trustees. Members are made aware of this facility in the Annual Report, Member Guide and via the Master Trust website.

The Trustees meet governance committees of participating employers or representatives of those committees and seek member feedback via such committees. Other methods of hearing member feedback continue to be considered as part of the overall Communications and Engagement plan. The Trustees welcome any member comments.

Employers are invited to forums to receive updated information and to provide and feedback and questions, and all members are able to feedback through these forums as well as directly through the email address above.

**Colin Richardson, Chair of Trustees**

Aviva Master Trust, 30 October 2018

# 7. Appendix 1– Statement of Investment Principles

## Aviva Master Trust ("the Scheme") – Statement of Investment Principles

### Introduction

The Scheme is designed for multiple employers, but delivered under a single trust arrangement and governed by a Board of Trustees, chaired by Colin Richardson of PTL Governance Ltd. A specialist independent investment adviser (KPMG LLP), legal adviser (Squire Patton Boggs) and auditor make up the team of experts that supports the Trustees to deliver the highest standards of governance.

This Statement of Investment Principles ("the Statement") states the investment principles governing decisions about investments for the purposes of the Scheme, a defined contribution pension arrangement made up of a number of employer-specific arrangements, registered with HMRC under Finance Act 2004. It has been produced by the Trustees of the Scheme in compliance with section 35 of the Pensions Act 1995.

The Statement will be made available to all participating employers prior to selecting the Scheme. All advice the Trustees receive regarding investment options for an employer of the Scheme will make reference to the Statement and indicate how the principles defined within have been addressed. It will also consider the appropriateness of fees and charges payable by members of the Scheme.

### Policy for choosing investments

The Scheme invests in pooled funds accessed via the Aviva investment platform. It offers a large, diverse range of pooled funds from which investments can be selected in each section on the Scheme. In agreeing to this appointment, the Trustees have specified that the Scheme's fund range should:

- include choices suitable for members of different ages and with different retirement benefit plans
- be designed to deliver long-term positive returns taking account of a number of different risks
- seek, where possible, to mitigate the risks described below
- be suitable for employers regardless of their industry or size
- include options suited for use as default options, as required by automatic enrolment legislation.

The day-to-day management of the Scheme's assets is ultimately delegated to one or more investment managers via insurance contracts or investment management agreements.

The Scheme offers a standard section that falls fully under the governance remit of the Trustees. In addition, employers are able to take independent advice and should they wish, establish their own bespoke default or other investment options. The Trustees are also responsible for the governance of these investment options.

Details of the default investment option for the standard section of the Scheme are contained in the Appendix. Details of the self-select investment options for the standard section are contained in the Scheme's "Investment Implementation Document – Standard Section".

Where an employer establishes a bespoke default investment option and/or fund range, details are contained in a separate "Employer Specific" document.

## Risks

For all sections of the Scheme, the Trustees will consider how best to safeguard members from the risks associated with investing their savings. The following list summarises some of the key risks and how the fund range is designed in light of these:

Inflation – Taking the fund range as a whole it is expected that the performance of member funds should protect the real value of the Scheme members' pension savings.

**Shortfall** – Although the Trustees have no influence over the level of contributions paid, members may potentially receive a lower retirement benefit than they had hoped for. The Trustees will inform members annually of the likely value of their potential benefit in order to inform their decision making.

**Performance ups and downs** – Those funds which have a chance of achieving higher returns for members are likely to see greater volatility over short periods. An appropriate level of risk for a specific default will be considered against the profile of the membership.

**Pension conversion** – For members approaching retirement, the impact of poor performance is significantly increased as they have less time to make up any lost money. All default options will need to factor in a de-risking mechanism such as lifestyling that recognises the changing requirements of members as they approach retirement, for example with a greater focus on capital preservation.

**Manager** – Selecting a fund from a manager who makes a poor investment decision is a considerable risk. The Trustees will continue to monitor the funds and managers available to Scheme members.

**Diversification** – Failure to diversify increases the risk of losing money if one particular investment fails. A default investment strategy will need to contain an appropriate level of diversification.

**Liquidity** – Some investments are not easy to sell, so delaying return or transfer of money.

The use of investments that may have liquidity issues will be restricted unless this risk is specifically managed.

**Credit** – The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, either directly or indirectly. The Scheme is subject to credit risk through its investment policy with Aviva, and through the underlying investments in the underlying funds. Aviva is regulated by the Prudential Regulation Authority and the Financial Conduct Authority and, in the event of default by Aviva, the Scheme is protected by the Financial Services Compensation Scheme. The Trustees monitor the financial strength of Aviva and the security of the Scheme assets in conjunction with their specialist independent investment adviser.

**Market** – The Scheme is subject to a number of market risks:

- **Currency risk:** the risk that the value of a fund will fluctuate because of changes in foreign currency exchange rates.
- **Interest rate risk:** the risk that the value of a fund will fluctuate because of changes in the market interest rates.
- **Other price risk:** the risk that the value of a fund will fluctuate because of changes in market prices (other than those arising from currency or interest rate risk), whether these changes are caused by factors specific to the individual fund assets or their issuers, or factors affecting all similar assets traded in the market.

The day-to-day management of the underlying investments is the responsibility of the underlying fund managers, including the direct management of credit and market risks. The Trustees monitor the Scheme's investment options and the fund managers on a regular basis, with the help from its specialist independent investment adviser.

## The expected return on investments

The overarching objective for the Scheme is to deliver long term positive returns, after charges, taking account of the risks described above.

The Trustees have regard to the relative investment return and risk that each asset class is expected to provide. The Trustees are advised by their independent professional advisers on these matters, who they deem to be appropriately qualified experts. However, the day-to-day selection of investment is delegated to the investment managers.

## The realisation of investments

The Scheme invests in pooled funds which can be quickly realised as required.

## Responsible investment

All decisions about the day-to-day management of the assets within each pooled fund are delegated to the fund managers. This delegation includes decisions about:

- social, environmental and ethical considerations in the selection, retention and realisation of investments;
- the exercise of rights (including voting rights) attaching to the investments.

Each fund manager is expected to exercise its powers of investments with a view to giving effect to the principles contained within this Statement, so far as is reasonably practicable. The Trustees will be reviewing this policy in the light of changes to regulations coming into force from 1 October 2019. The regulations will require the Trustees disclose in this Statement how they take account of financially material considerations and stewardship, which would include ESG factors.

## Compliance

The Statement will be reviewed triennially by the Trustees and without delay following any significant change in the Trustees' investment policy.

In preparing the Statement, the Trustees have obtained and considered the written advice of a person who is reasonably believed by the Trustees to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of schemes such as the Scheme. The Trustees have consulted with Aviva Life and Pensions UK Limited ("Aviva") as sponsoring employer and the company appointed to act on behalf of the participating employers to the Scheme.

Before revising the Statement at any time in the future, the Trustees will obtain and consider the written advice of a specialist independent investment adviser and will consult with Aviva.

Signature

**Colin Richardson, Chair of Trustees**

Aviva Master Trust, 23 October 2018

# Appendix – Standard Section of the Scheme

**Investment objectives**

The Trustees' overall objective is to provide investment options that enable members to grow their pension savings after charges over the long term, and to manage risks appropriately.

The default investment option, as described below, is expected to meet this objective and also takes into account guidance from the Pension's Regulator and the Department for Work & Pensions guidance for offering a default investment option for defined contribution automatic enrolment pension schemes.

Furthermore, the Trustees believe that the self-select funds offered as an alternative to the default fund enable members to choose their own portfolio of funds which would achieve the overall objective.

**Default Investment Option**

The Trustees have designated the Aviva My Future Lifestyle as the standard default investment option for members, and this will be used as the default option by participating employers not wishing to implement an alternative default.

This default option invests in the My Future Growth Fund during the growth phase of the lifestyle strategy.

During the pre-retirement phase, starting 15 years away from retirement, members' assets are phased such that the exposure to the My Future Growth Fund is reduced and exposure to the My Future Consolidation Fund is increased. At retirement a member will be 100% invested in the My Future Consolidation Fund.

The standard default option has been constructed to ensure compliance with the charge cap which became effective for default investment options from 6 April 2015 and following an analysis of expected member behaviour and in light of the flexibilities available to members once they reach retirement.

The retirement outcomes of the default lifestyle strategy will be reviewed at least triennially or earlier in the event of any significant changes in the demographic profile of the relevant members.

The default investment lifestyle strategy will be reviewed at least triennially or earlier in the event of any significant changes in the investment policy or member demographics. The review will take into account the manner in which members take their pension savings from the Scheme and any significant changes in the demographic profile of the relevant members.

The Trustees' policies in relation to the default investment option in respect of matters set out in the Occupational Pension Schemes (Investment) Regulation 2005, as amended, are those set out in the rest of this statement.

In addition the Trustees offer a range of additional lifestyle options and self-select funds. The lifestyle options are targeted for different member outcomes: cash; drawdown; and annuity. In addition the My Future Plus funds offer additional lifestyle choices to members. The self-select fund options encompass a wider range of asset classes including equity, fixed income and multi-asset funds. Passive and Active options are available to members, and full details are contained in the Scheme's "Investment Implementation Document – standard section".

# 8. Appendix 2 – Transactions Costs

| Name of Fund | Transaction costs | Note |
|---|---|---|
| Aviva Investors Multi-Strategy Target Return (AIMS) | 0.18% | Per slippage cost methodology for equities, bonds and FX. No costs are currently allocated to over the counter derivatives. Covers 1/4/2017 to 31/3/2018. |
| Baillie Gifford International | 0.09% | Per PS17/20 slippage cost methodology including FVMP covering 1/3/2017 to 28/2/2018. |
| Baillie Gifford UK Equity Core Pension | 0.19% | Per PS17/20 slippage cost methodology including FVMP covering 1/3/2017 to 28/2/2018. |
| BlackRock (3070) Currency Hedged Global Equity Index (Aquila C) | -0.0 1% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock (Aquila C) Market Advantage | 0.01% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| BlackRock A ll Stocks UK Gilt Index (Aquila C) | -0.0 1% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock Corporate Bond All Stocks Index (Aquila C) | -0.02% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |

| Name of Fund | Transaction costs | Note |
|---|---|---|
| BlackRock Emerging Markets Equity (Aquila C) | -0.09% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock Institutional Sterling Liquidity | 0.02% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| Black Rock Over 5 Year Index-Linked Gilt Index (Aquila C) | 0.01% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| BlackRock UK Equity Index (Aquila C) | 0.10% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| Aviva Investors Multi-Strategy Target Return (AIMS | 0.18% | Per slippage cost methodology for equities, bonds and FX. No costs are currently allocated to over the counter derivatives. Covers 1/4/2017 to 31/3/2018. |
| Baillie Gifford International | 0.09% | Per PSI 7/20 slippage cost methodology including FVMP covering 1/3/2017 to 28/2/2018. |
| Baillie Gifford UK Equity Core Pension | 0.19% | Per PSI 7/20 slippage cost methodology including FVMP covering 1/3/2017 to 28/2/2018. |
| BlackRock (3070) Currency Hedged Global Equity Index (Aquila C) | -0.01% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock (Aquila C) Market Advantage | 0.01% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |

| Name of Fund | Transaction costs | Note |
|---|---|---|
| BlackRock All Stocks UK Gilt Index (Aquila C) | -001% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock Corporate Bond All Stocks Index (Aquila C) | -0.02% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock Emerging Markets Equity (Aquila C) | -0.09% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| BlackRock Institutional Sterling Liquidity | 0.0 2% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| BlackRock Over 5 Year Index-Linked Gilt Index (Aquila C) | 0.01% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |
| BlackRock UK Equity Index (Aquila C) | 0.10% | Calculated using PRIIPS slippage cost methodology and covers FY 2017. |

| Name of Fund | Transaction costs | Note |
|---|---|---|
| My Future Annuity | -0.03% | Invests in range of BlackRock funds. The costs of the underlying BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. These costs have been applied to the My Future funds according to their asset allocation as at YE 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| My Future Cash Lump Sum | -0.01% | Invests in range of BlackRock funds. The costs of the underlying BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. These costs have been applied to the My Future funds according to their asset allocation as at YE 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |
| My Future Consolidation | -001% | Invests in range of BlackRock funds. The costs of the underlying BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. These costs have been applied to the My Future funds according to their asset allocation as at YE 2017. The negative transaction cost reflects the use of the slippage cost methodology. As index funds are traded at close of business, the window of opportunity for the price to move between when the portfolio manager places the order into the trading system compared to when the trade is placed by the trading is significant. Where the price has dropped between these two points, it has a positive effect on the overall transaction cost calculation, resulting in the negative cost shown. |

| Name of Fund | Transaction costs | Note |
|---|---|---|
| My Future Drawdown | 0.00% | Invests in range of BlackRock funds. The costs of the underlying BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. These costs have been applied to the My Future funds according to their asset allocation as at YE 2017. |
| My Future Growth | 0.02% | Invests in range of BlackRock funds. The costs of the underlying BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. These costs have been applied to the My Future funds according to their asset allocation as at YE 2017. |
| My Future Plus Annuity | -0.02% | Invests 75% in Legal & General (PMC) Pre-Retirement fund. See note above with respect to the Legal & General (PMC) Pre-Retirement fund. |
| My Future Plus Cash Lump Sum | 0.00% | Invests in a combination of BlackRock and Karnes fund. The costs of the BlackRock funds have been calculated using the PRIIPS slippage cost methodology and cover FY 2017. Cost received from Karnes for the Absolute Return Bond fund (which represents c.20% of the My Future Plus Cash Lump Sum fund) is calculated using a different methodology compared to BlackRock and has been excluded as a result. |
| My Future Plus Consolidation | 0.04% | Invests in a combination of BlackRock and Legal & General funds. The costs for the component BlackRock funds have been calculated using PRIIPS slippage cost methodology and cover FY 2017. The costs for the component Legal & General funds have been calculated using the slippage cost methodology, but using market close price rather than arrival price. Covers FY 2017. These costs have been applied to the My Future fund according to their asset allocation as at YE 2017. |
| My Future Plus Drawdown | 0.06% | Invests in a combination of BlackRock and Legal & General funds. The costs for the component BlackRock funds have been calculated using PRIIPS slippage cost methodology and cover FY 2017. The costs for the component Legal & General funds have been calculated using the slippage cost methodology, but using market close price rather than arrival price. Covers FY 2017. These costs have been applied to the My Future fund according to their asset allocation as at YE 2017. |

| Name of Fund | Transaction costs | Note |
|---|---|---|
| My Future Plus Growth | 0.05% | Invests in a combination of BlackRock and Legal & General funds. The costs for the component BlackRock funds have been calculated using PRIIPS slippage cost methodology and cover FY 2017. The costs for the component Legal & General funds have been calculated using the slippage cost methodology, but using market close price rather than arrival price. Covers FY 2017. These costs have been applied to the My Future fund according to their asset allocation as at YE 2017. |
| Morrisons Growth | - 0.0 1% | Invests 100% in BlackRock (3D:7D) Currency Hedged Global Equity Index (Aquila C). See note above. |
| Morrisons Annuity | -0.03% | Invests 100% in Legal & General (PMC) Pre-Retirement fund. See note above. |
| Morrisons Pre-Retirement | 0.01% | Invests in 3 BlackRock funds the costs for which have been calculated using the PRIIPS methodology covering FY 2017. |
| LIP Bond | -0.01% | Invests in 3 BlackRock funds the costs for which have been calculated using the PRIIPS methodology covering FY 2017. |
| LIP Cash | 0.02% | Invests in BlackRock Institutional Sterling Liquidity. See note above. |
| LIP Global Equity | 0.01% | Invests in 2 BlackRock funds the costs for which have been calculated using the PRIIPS methodology covering FY 2017. |
| LIP Diversified | 0.24% | Invests in Standard Life GARS and Newton Real Return. Costs have been calculated per the PRIIPS methodology. |

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