Trustee’s report (continued)

Defined Benefit

Management and custody of investments
The CEIFP’s custody arrangements are described in the CEIFP’s Trustee’s Report in Appendix 2.

The Scheme holds £68.1m (2018: £38.4m) of its liability matching assets outside the CEIFP in its own LDI account. The Trustee has appointed The Northern Trust Company Limited (“Northern Trust”) to keep custody of the Scheme’s investments, other than pooled investment vehicles, where the manager makes its own arrangements for the custody of underlying investments.

Investment performance
Index-linked Gilts posted gains over the year, with the FTSE Over 5-Year Index-linked Gilt index increasing by 6.8% in 2019. The Scheme’s LDI gains were 8.4% (2018: loss of 0.3%).

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme’s investments and considers them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

Additional Voluntary Contributions (AVCs)
AVCs to the Defined Benefit section are paid into one of the following arrangements:

- Church Workers Pension Fund – Pension Builder Classic section, where they are converted into guaranteed pension when they are received;
- CAPF Defined Benefits section – where they purchase added years; or
- Standard Life policy – where they are used to purchase investment units.

At the end of 2019, 6 (2018: 9) Defined Benefit members were paying AVCs.

Defined Contribution
The Board has appointed Legal and General to manage its Defined Contribution investments. A range of funds are available to the members and there are three main types of investments: mixed investment Target Date Funds, equities; bonds and gilts; and cash.

The current default investment arrangement is a Target Date Fund which invests in a mixture of assets. It initially invests in higher risk assets and moves the investments as the chosen retirement date gets closer into investments suitable to be used either for drawdown, an annuity or to stay invested. The drawdown journey is the default.

The performance of the Defined Contribution section assets will vary depending on each member’s units selected. The performance of the default option depends on the length of time that a member has until retirement. As these funds have been the default option since February 2019, and the funds were launched in January 2019, there is insufficient information available to provide detailed performance statistics.

Additional Voluntary Contributions (AVCs)
AVCs are used to purchase units in the investment funds offered by Legal and General.

At the end of 2019, 260 (2018: 318) members were paying AVCs.

Employer-related investments
Details of employer-related investments are given in note 13 to the financial statements.

Further Information
Requests for additional information about the Scheme generally, or queries relating to members’ own benefits, should be addressed to:

The Pensions Department
Church of England Pensions Board
PO Box 2026
Pershore
WR10 9BW

Alternatively, enquiries may be made by email to pensions@churchofengland.org, or by telephone to 020 7898 1801.

Approval
The Trustee’s Report and the Statement of Trustee’s Responsibilities set out on page 13 were approved by the Trustee on 16 June 2020 and signed on its behalf by:

\[signature\]

Clive Mather
Chairman of the Church of England Pensions Board
Defined Contribution Governance statement
for the year ended 31 December 2019

Introduction
Governance requirements apply to pension arrangements which provide defined contribution ("DC") benefits, like the DC Section of the Church Administrators Pension Fund ("CAPF"), to help members achieve a good outcome from their pension savings. The Church of England Pensions Board as trustee of the CAPF (the "Trustee") is required to produce a yearly statement (which is signed by the Chair of Trustees) to describe how these governance requirements have been met in relation to:

- the investment options in which members can invest (this means the default arrangement and other funds members can select);
- the requirements for processing financial transactions;
- the charges and transaction costs borne by members;
- an illustration of the cumulative effect of these costs and charges;
- a 'value for members' assessment; and
- Trustee knowledge and understanding.

This Statement covers the period from 1 January 2019 to 31 December 2019.

Default arrangements
The DC Section is used as a Qualifying Scheme for auto-enrolment.

When deciding on the DC Section's investment strategy, the Trustee recognises that most members do not make active investment decisions and instead are invested in one of the DC Section’s default arrangements. The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the DC Section’s default arrangements and selecting the investment funds used in them.

Details of the objectives and the Trustee’s policies regarding the current default arrangements can be found in a document called the ‘Statement of Investment Principles’ (SIP). CAPF’s SIP covering the default arrangements is attached to this Statement.

The DC Section currently has two default arrangements:
- the legacy default strategy, (the “Legacy Default”) which is a lifestyle strategy targeting annuity purchase at retirement; and
- the DC Section’s main default investment arrangement, the Drawdown Journey, (the “Default”).

The Default is designed for new members who join the DC Section and do not choose an investment option, and most existing members of the DC Section who did not choose an investment option. Assets representing these members’ benefits have been allocated to investment funds under the Default automatically. The Legacy Default applies to some existing members (see below).

The Legacy Default was not reviewed during the period covered by this Statement. The Trustee last reviewed the Legacy Default on 21 April 2017. Based on the recommendation of its investment adviser at that time, the Trustee agreed to replace the DC Section’s main default arrangement, moving from a lifestyle strategy targeting annuities (the Legacy Default) to a Target Date Fund ("TDF") strategy managed by Legal and General ("L&G") (the Default). Under this new strategy, members’ assets are automatically moved between different investment funds as they approach their target retirement date. The decision to replace the Legacy Default was made to allow members additional flexibility to access the new pension and retirement freedoms introduced in pensions legislation by the UK Government in April 2015.

The Legacy Default was replaced by the Default as the main default arrangement in January 2019. Most members in the Legacy Default were then transferred to this new arrangement at that time. However, members who were less than 5 years to their nominated retirement date were not moved automatically and so have remained in the Legacy Default.

The objectives of the Default, as stated in the SIP, are as follows:
- To provide a prudent default arrangement for those that do not wish to make an investment choice; and
- To provide a range of investment funds and de-risking options that enables members to fulfil their retirement needs and ambitions.

The Default was not reviewed during the period covered by this Statement. As explained above, assets started to be invested in this arrangement during this Scheme year and a review of the suitability of the Default was undertaken beforehand in 2017.

The Trustee regularly monitors the performance of the Default and Legacy Default and will formally review both these and their respective strategies at least every three years (the next review is intended to take place in July 2020) or immediately following any significant change in the Trustee’s investment policy or the CAPF’s membership profile.

The Trustee is satisfied that the Default and Legacy Default remain appropriate, following the changes made as part of the Trustee’s last review in 2017.

Requirements for processing core financial transactions
Processing core financial transactions (such as the investment of contributions, processing transfers in and out of the DC Section, processing transfers of DC Section assets between different investments, and payments to members/beneficiaries) is carried out by the administrators of the DC Section, the administration team of the Church of England Pensions Board.

The DC Section’s administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the DC Section are processed promptly and accurately.
Defined Contribution Governance statement (continued)

The Trustee has a service level agreement ("SLA") in place with the administration team in relation to the CAPF which covers the accuracy and timeliness of all core transactions. The key processes adopted by the administration team to help them meet the SLA are as follows:

- Process management within the administration system detailing time outstanding to complete tasks within their assigned SLA;
- Weekly reporting to senior managers detailing any SLA failures and reason for failure;
- Daily monitoring of emails by an assigned member of staff;
- Daily monitoring of bank accounts; and
- Checking by two people of investment and banking transactions.

To help the Trustee monitor whether service levels are being met, the Trustee receives and reviews quarterly reports about the DC Section administrator’s performance and compliance with the SLA. Using information provided by the DC Section administrators, which has been reviewed by the CAPF auditors, the Trustee is satisfied that over the period covered by this Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the CAPF scheme year.

Member-Borne charges and transaction costs

The Trustee is required to set out the on-going charges incurred by members in this Statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds. The stated charges also exclude administration costs since these are not met by the DC Section members.

The Trustee is also required to separately disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the DC Section’s fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The transaction costs are borne by members.

The charges and transaction costs have been supplied by L&G who are the investment manager for the DC Section. All transaction costs have been obtained for all funds with DC Section member assets invested in them. When preparing this section of the Statement the Trustee has taken account of the relevant statutory guidance. Due to the way in which transaction costs have been calculated it is possible for figures to be negative; since transaction costs are unlikely to be negative over the long term the Trustee has shown any negative figure as zero.

Default arrangement

The Default is a TDF, the Drawdown Journey, which is for members looking to target income drawdown at retirement at a particular age. The TDF’s asset allocation changes over time, similar to a lifestyle arrangement, with members assets automatically moved between different asset classes as they approach their target retirement date. The fees charged to members for investing in this strategy remain the same regardless of how far members are from their target retirement age. However, the level of transaction costs can sometimes vary depending on how close members are to their target retirement age and what assets they are invested in.

For the period covered by this Statement, annualised charges and transaction costs throughout all of the vintages of the Default TDF are the same, at 0.30% and 0.00% pa respectively.

Legacy default arrangement

The Legacy Default is a lifestyle strategy, targeting annuity purchase at retirement. The Legacy Default’s allocation similarly changes over time, with members’ assets automatically moved between different asset classes as they approach their target retirement date. The fees charged to members for investing in this strategy vary as they move closer to retirement. The level of transaction costs incurred by members in the Legacy Default likewise varies as members move closer to retirement.

For the period covered by this Statement, annualised charges and transaction costs for the Legacy Default are set out in the table below:

<table>
<thead>
<tr>
<th>Years to target retirement date</th>
<th>TER</th>
<th>Transaction costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 or more years to retirement</td>
<td>0.19%</td>
<td>0.02%</td>
</tr>
<tr>
<td>4 years to retirement</td>
<td>0.17%</td>
<td>0.03%</td>
</tr>
<tr>
<td>3 years to retirement</td>
<td>0.16%</td>
<td>0.03%</td>
</tr>
<tr>
<td>2 years to retirement</td>
<td>0.14%</td>
<td>0.04%</td>
</tr>
<tr>
<td>1 year to retirement</td>
<td>0.12%</td>
<td>0.05%</td>
</tr>
<tr>
<td>At retirement</td>
<td>0.11%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>
Defined Contribution Governance statement (continued)

Self-select options
In addition to the DC Section's default arrangements, DC Section members also have the option to invest in two other TDF strategies, the 'Annuity Journey' and 'Stay Invested Journey' respectively. There is also an ethical lifestyle option and several other self-select funds.

For the period covered by this Statement, annualised charges and transaction costs throughout all of the vintages of the Annuity Journey and Stay Invested Journey are 0.30% and 0.00% pa respectively.

For the period covered by this Statement, annualised charges and transaction costs for the Ethical lifestyle option are set out in the table below:

<table>
<thead>
<tr>
<th>Years to target retirement date</th>
<th>TER</th>
<th>Transaction costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 or more years to retirement</td>
<td>0.25%</td>
<td>0.01%</td>
</tr>
<tr>
<td>4 years to retirement</td>
<td>0.22%</td>
<td>0.01%</td>
</tr>
<tr>
<td>3 years to retirement</td>
<td>0.19%</td>
<td>0.02%</td>
</tr>
<tr>
<td>2 years to retirement</td>
<td>0.16%</td>
<td>0.03%</td>
</tr>
<tr>
<td>1 year to retirement</td>
<td>0.13%</td>
<td>0.04%</td>
</tr>
<tr>
<td>At retirement</td>
<td>0.11%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>

The level of charges for each self-select fund and the transaction costs over the period covered by this Statement are set out in the following table.

<table>
<thead>
<tr>
<th>Manager – Fund name</th>
<th>TER (% pa)</th>
<th>Transaction costs (% pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical UK Equity Index Fund</td>
<td>0.20</td>
<td>0.01</td>
</tr>
<tr>
<td>Ethical Global Equity Index Fund</td>
<td>0.29</td>
<td>0.00</td>
</tr>
<tr>
<td>UK Equity Index Fund</td>
<td>0.10</td>
<td>0.00</td>
</tr>
<tr>
<td>Global Equity Market Weights (30:70) Index Fund</td>
<td>0.19</td>
<td>0.02</td>
</tr>
<tr>
<td>Overseas Equity Consensus Index Fund</td>
<td>0.25</td>
<td>0.00</td>
</tr>
<tr>
<td>Over 5 years UK Index-Linked Gilts Fund</td>
<td>0.10</td>
<td>0.07</td>
</tr>
<tr>
<td>Over 15 Year Gilts Index Fund</td>
<td>0.10</td>
<td>0.02</td>
</tr>
<tr>
<td>AAA-AA-A Corp Bond All Stocks Index Fund</td>
<td>0.14</td>
<td>0.00</td>
</tr>
<tr>
<td>Managed Property Fund</td>
<td>0.84</td>
<td>0.00</td>
</tr>
<tr>
<td>Cash Fund</td>
<td>0.12</td>
<td>0.00</td>
</tr>
</tbody>
</table>
Defined Contribution Governance statement (continued)

Illustration of charges and transaction costs
The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member’s pension savings.

The “before costs” figures represent the savings projection assuming an investment return with no deduction of member borne fees (ie the TER) or transaction costs. The “after costs” figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

The transaction cost figures used in the illustration are those provided by the managers over the year to 31 December 2019, subject to a floor of zero (so the illustration does not assume a negative cost over the long term).

The illustration is shown for the Default (the Drawdown Journey) since this is the arrangement with the most members invested in it, as well as four funds from the DC Section’s self-select fund range. The four self-select funds shown in the illustration are:

- the fund with the highest before costs expected return – this is the LGIM Global Equity Market Weights (30:70) Index Fund
- the fund with the lowest before costs expected return – this is the LGIM Cash Fund
- the fund with highest annual member borne costs – this is the LGIM Managed Property Fund
- the fund with lowest annual member borne costs – this is the LGIM UK Equity Index Fund

Projected pension pot in today’s money

<table>
<thead>
<tr>
<th>Years invested</th>
<th>Default option</th>
<th>LGIM Global Equity Market Weights (30:70) Index Fund</th>
<th>LGIM Cash Fund</th>
<th>LGIM Managed Property Fund</th>
<th>LGIM UK Equity Index Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before costs</td>
<td>After costs</td>
<td>Before costs</td>
<td>After costs</td>
<td>Before costs</td>
</tr>
<tr>
<td>1</td>
<td>£16,400</td>
<td>£16,400</td>
<td>£16,600</td>
<td>£16,600</td>
<td>£16,300</td>
</tr>
<tr>
<td>3</td>
<td>£23,200</td>
<td>£23,100</td>
<td>£24,200</td>
<td>£24,000</td>
<td>£23,100</td>
</tr>
<tr>
<td>5</td>
<td>£30,300</td>
<td>£29,900</td>
<td>£32,300</td>
<td>£32,100</td>
<td>£25,800</td>
</tr>
<tr>
<td>10</td>
<td>£48,700</td>
<td>£47,700</td>
<td>£55,800</td>
<td>£55,000</td>
<td>£48,800</td>
</tr>
<tr>
<td>15</td>
<td>£68,600</td>
<td>£66,700</td>
<td>£84,500</td>
<td>£82,800</td>
<td>£69,700</td>
</tr>
<tr>
<td>20</td>
<td>£90,400</td>
<td>£87,100</td>
<td>£119,600</td>
<td>£116,400</td>
<td>£92,900</td>
</tr>
<tr>
<td>25</td>
<td>£114,200</td>
<td>£109,100</td>
<td>£162,600</td>
<td>£157,100</td>
<td>£118,500</td>
</tr>
<tr>
<td>30</td>
<td>£140,300</td>
<td>£132,800</td>
<td>£215,000</td>
<td>£206,400</td>
<td>£147,000</td>
</tr>
<tr>
<td>35</td>
<td>£167,700</td>
<td>£157,400</td>
<td>£279,200</td>
<td>£266,000</td>
<td>£178,600</td>
</tr>
<tr>
<td>40</td>
<td>£196,000</td>
<td>£182,300</td>
<td>£357,600</td>
<td>£338,100</td>
<td>£213,700</td>
</tr>
</tbody>
</table>

Notes
- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today’s terms, and do not need to be reduced further for the effect of future inflation.
- Annual salary growth and inflation is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £13,100 which is broadly in-line with the average active member as at 31 December 2019.
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach CAP’s Normal Pension Age.
- The starting salary is assumed to be £36,800 which is broadly in-line with the average active member as at 31 December 2019.
- Total contributions (employee plus employer) are assumed to be 8% per year, as this is the employer’s contribution for members under 30 years of age as at 31 December 2019.
- The projected annual returns used are as follows:
  - Default option: 2.6% above inflation in the growth phase reducing to 1.5% above inflation at retirement. This is the average rate of funds used within the TDF, including allowance for the changes in asset allocation as a member approaches retirement age.
  - LGIM Global Equity Market Weights (30:70) Index Fund 4.1% above inflation
  - LGIM Cash Fund 2.0% below inflation
  - LGIM Managed Property Fund 2.1% above inflation
  - LGIM UK Equity Index Fund 4.1% above inflation
- No allowance for active management outperformance has been made.

Value for members assessment
The Trustee is required to assess the extent to which the member borne charges and transaction costs which apply to DC Section members represent good value for members. There is no legal definition of ‘good value’ which means that determining this is subjective. The general policy of the Trustee in relation to value for member considerations is set out below. The assessment was undertaken taking account of the Pensions Regulator’s Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

The Trustee reviews all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the DC Section. The date of the last review was 2 April 2020. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment. The Trustee’s investment advisers have confirmed that the fund charges are competitive for the types of funds available to members.

The Trustee’s assessment included a review of the performance of the DC Section’s investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this Statement have been consistent with their stated investment objectives.

Church Administrators Pension Fund
Annual Report 2019