The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited

Annual statement by the Chair of the Trustee for the Scheme Year to 31 December 2020

The Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited ("the Scheme") offers both Defined Benefit ("DB") and Defined Contribution ("DC") benefits. This assessment covers the DC section of the Scheme and the DB additional voluntary contributions ("AVCs"), as per the regulations in force.

What is this Statement for?

It's important that you can feel confident that your savings in the Scheme are being looked after and give good value.

This Statement sets out how the Trustee has managed the Scheme in the last Scheme Year and what it aims to do in the coming year.

A copy of this Statement, together with other key Statements about how the Scheme is managed are posted on-line at https://www.nfumstaffpensions.co.uk/.

What's in this Statement?

We've included information on the following areas in this Statement:

1. How we manage your Scheme – who the Trustee are and what guides our decision making;
2. Investment options – what we have done to check the performance and suitability of the Scheme's investment options, especially those used by members who don't want to make an investment choice known as the "default arrangement";
3. Cost and charges – what costs and charges you have paid in the last year and how these might impact the size of a typical member's savings in the Scheme over time;
4. Value for Members - how the quality of the Scheme's services (including the investment returns on your savings) which you pay for compare to other pension schemes.
5. Administration – how well the Scheme has been administered including how promptly and accurately key transactions (such as the investment of your contributions) have been processed;
6. Trustee knowledge – what the Trustee has done to maintain its level of knowledge and obtain the professional advice needed to look after the Scheme for you; and
7. Completed actions and our plans for the next year – what key actions the Trustee took in the last year and what it aims to do in the coming year to continue to improve the Scheme for all its members.

What were the highlights from the last 12 months?

We can confirm to you the following.

1 How we manage your Scheme

There have been no changes to the Trustee Board in the last Scheme Year.

The Statement of Investment Principles, which sets out the Trustee's policies on how your contributions should be invested, was updated on 23 September 2020 to reflect new regulatory requirements on

Responsible Investment. The first implementation report describing how the Trustee has followed its policies set out in the Statement of Investment Principles is being published at the same time as this Statement.

At 31 December 2020 the Scheme had 6,399 members and was worth a total of approximately £206 million.

2 Investment options

The Trustee undertook an investment review on 24 March 2020 and some changes to the default arrangement were agreed in principle by the Trustee, with a view to improve member outcomes, however a final decision was deferred due to the transition of the Scheme Administrator from Mercer to Trafalgar House. The changes are due to be implemented during 2021 following a revisit of the proposed changes to ensure the Trustee remains in agreement with its decision in March 2020. Please see Section 2 for more details. The next full review of the investment options will be carried out in 2023.

There have been no changes to the investment options in the last Scheme Year, and the implementation of the changes following the strategic review are due to be implemented during 2021 following a revisit of the proposed changes to ensure the Trustee remains in agreement with its decision in March 2020.

3 Cost and charges

You pay for the Scheme's investment and transaction costs while the Society pays for the Scheme's administration, communications and governance services.

We monitored the costs and charges going out of members' pension pots during the last year:

The charges in the last year for the default arrangement, the Drawdown Lifestyle Strategy, were in a range from 0.30% p.a. to 0.31% p.a. of the amount invested, or put another way, £2.95 to £3.10 for every £1,000 invested – which is well within the "charge cap" for auto-enrolment in our Scheme required by the Government.

Over the Scheme Year the Trustee has changed the reference from "lifecycle strategy" to "lifestyle strategy" as the latter term is more commonly used across pensions communications.

We have also looked at how the costs and charges taken out of a typical member's pension pot each year (assumed to be £1,000 at the start of the retirement journey) might affect its future size when they come to retire. Over a 40 year period, the current level of costs and charges for the Scheme's default arrangement could reduce the size of a pension pot by £6,900 leaving £96,100 at age 60.

4 Value for Members

Each year we look at the costs and charges you pay as well as the range and quality of the services you pay for and see how they compare with similar pension schemes.

We found that the Scheme gave **Good** value for members in the last Scheme Year. Over the next year our main priority to improve value for you will be the change in Scheme Administrator – see section 4 for more details.

5 Administration

We check that the administration of the Scheme is going smoothly at our quarterly meetings and found that:

- All the key financial transactions were not processed promptly, accurately and efficiently by the Scheme Administrator; and
- The wider administration of the Scheme was not completed within the service standards we agreed with the Scheme Administrator.

The Trustee has reviewed the Scheme Administrator and decided that Trafalgar House will take over from Mercer. More details about this change and the review process can be found in Section 5 on Administration.

The coronavirus pandemic inevitably affected administration of the Scheme between March and May 2020 while Mercer arranged for most of its staff to work from home and dealt with increases in staff absences.

6 Trustee knowledge

It's important that we as Trustee Directors keep our knowledge of pension and investment matters up to date and have access to sound professional advice.

All of the Trustee Directors attended training sessions during the year on subjects such as default reviews, trustee protection and insurances, climate change risk, covenant, valuations and pension scams, and we checked our level of knowledge and understanding by carrying out an assessment to confirm and identify any gaps in the Trustee's knowledge – see Section 6 for more details.

The Trustee has reviewed the Scheme Administrator and decided to appoint Trafalgar House to take over from Mercer. There have been no changes to the Trustee's other advisers during the year.

Overall, the Trustee believes that it has the right skills and expertise together with access to good quality professional advice so that it can run your Scheme properly.

7 Our key actions last year and plans for the next year

During the Scheme Year the Trustee undertook the following (over and above "business as usual"):

- Improved Value for Members by:
    - Reviewing the Scheme communications, updating the investment and Scheme guide and taking steps towards electronic communications;
    - Completing a strategic review of the default arrangement; and
    - Undertaking a rigorous process to review the Scheme Administrator and deciding that Trafalgar House will take over from Mercer effective from 1 July 2021.
- Arranged for the publication of this Statement, together with the SIP in a publicly searchable location on the internet with a note of this location in the annual benefit statements: https://www.nfumstaffpensions.co.uk/ ; and
- Updated the SIP to reflect the new regulatory requirements on Responsible Investment, due by 1 October 2020. This included a requirement to explain how it incentivises investment managers to align their investment strategy with the Trustee's policies.

In the coming year (which will be covered by the next Chair's Statement), the Trustee intends to carry out the following:

- Improve Value for Members by:
    - Re-visiting the proposed changes to the default strategy and, if still in agreement with its decision in March 2020 implement the changes;
    - Continuing to monitor the performance of the funds underlying the default arrangement as well as the other self-select funds;
    - Considering additional Responsible Investment funds to improve member choice;

  - Completing the transition of the Scheme Administrator from Mercer to Trafalgar House, effective from 1 July 2021;
  - Completing the updates to the external website to include more member education on their options; and
  - Considering the requirements of the draft Single Code of Practice which is expected to come into force towards the end of 2021.
- Work with the fund managers (NFU Mutual and Legal & General) to widen their reporting on Responsible Investment and how they vote at shareholder meetings;
- Receive training on security of assets and review the security provided by existing fund structures;
- Seek additional feedback from members; and
- Complete the first Implementation Statement describing how the Trustee has followed the policies in the Scheme's SIP.

We were unable to obtain some information on the Scheme – this is set out at the end of section 7.

The rest of this Statement goes into more detail - please read on if you want to find out more about how we have managed your Scheme in the last Scheme Year. We hope this Statement is of help to you planning for your future.

Please note that the Scheme Administrator is changing from Mercer to Trafalgar House.

Until 30 June 2021, if you have any questions, please contact the Scheme Administrator, Mercer: NFU Mutual Retirement Benefit Scheme, Mercer, Post Handling Centre, St James's Tower, 7 Charlotte Street, Manchester, M1 4DZ. T: 0345 450 6954. E-mail@: nfumpensions@mercer.com.

On or from 1 July 2021 onwards, you should contact Trafalgar House. Trafalgar House will send a welcome booklet to all pension scheme members in late June 2021, which will include their contact details.

You can still contact the Pensions Team at NFU Mutual at RBS@nfumutual.co.uk.

Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the Scheme, to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement describing how these governance requirements have been met.

This Statement covers the period from 1 January 2020 to 31 December 2020 ("the Scheme Year").

For the record

This Annual Statement regarding governance has been prepared in accordance with:

Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

Brian Duffin _____ **Date:** 22 June 2021 _____

Signed by Brian Duffin, the Chair of the Trustee of the Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited.

1 How we manage your Scheme

At 31 December 2020, the Trustee Directors of the Scheme were:

- Mr Brian Duffin (Chairman)
- Mr Kenneth Graves
- Mr Jonathan Priestley
- Mr Andrew Spriggs
- Mr Kevin Davies

The Trust Deed and Rules, which govern the Scheme, were amended on 1 October 2020. A Deed of Amendment was agreed as an amendment to the DC Rules, in relation to family-related leave, the definition of Spouse and serious ill health lump sums. You can request a copy of the Trust Deed and Rules, including this Deed of Amendment from the Pensions Team at NFU Mutual at RBS@nfumutual.co.uk.

The Statement of Investment Principles sets out the Trustee's investment policies which the Trustee, with the help of its advisers, reviews at least every three years. The last review was carried out in 2020 and the Statement was changed on 23 September 2020 to reflect new regulatory requirements on Responsible Investment.

An implementation statement setting out how the Trustee complied with the Statement of Investment Principles during the Scheme Year to 31 December 2020 will be published by October 2021 and will be published on-line at https://www.nfumstaffpensions.co.uk/.

Over the year to 31 December 2020, the number of members grew from 6,130 to 6,399, while the total value of members' pension pots grew from approximately £180 million to approximately £206 million.

2 Investment options

Default arrangement

The Scheme's default arrangement, the Drawdown Lifestyle Strategy, is designed for members who join the Scheme and do not choose an investment option. The Trustee is responsible for the governance of the default arrangement which includes setting and monitoring its investment strategy.

The Trustee decided that the default arrangement should be a lifestyle strategy, which means that members' contributions are automatically moved between different funds as they approach their selected retirement date.

The main investment objectives for the default arrangement are in outline:

- To provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices;
- To manage the principal investment risks faced by an average member during their membership of the DC Section of the Scheme;
- To target the majority of members who are expected to use Flexible Access Income Drawdown ("FAD") during their retirement;
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members up to 3 years from retirement; and
- During the last 3 years before retirement, to increasingly invest in cash to a target allocation of 25%, recognising the 25% tax free cash allowance available to members at retirement, whilst also helping to mitigate fluctuations in fund values.

The Statement of Investment Principles (SIP) for the default arrangement is appended to this Statement. Please note that the SIP covers all the Scheme's investments – the principles guiding the design of the default arrangement are set out on pages 3 to 4.

The Trustee currently believes that the default arrangement is appropriate for the majority of the Scheme's members because:

- It is believed that a proportion of the membership are either unengaged in or unable to decide where their DC pot should be invested;
- A significant portion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by regulations to have a default arrangement; and
- The Trustee believes that the presence of an effective default arrangement will help deliver good outcomes for members at and into retirement.

In choosing what is felt to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, and the likely return on investment after the deduction of charges payable on the funds used by the default arrangement.

Analysis was conducted by the Trustee in 2018 to determine the approximate pot size for members at retirement. In terms of the active members, around 87% of all members retiring after 2019 are expected to have a pot size more than £50,000 and around 52% will have a pot size greater than £100,000. In terms of the deferred members, the median pot size is £31,000 (70% of members are expected to have pots less than £50,000 and 48% under £30,000).

The Trustee recognises that members may also have accrued benefits elsewhere.

Based on this analysis, the Trustee believes most members will want to take their retirement benefits flexibly (e.g. through income drawdown) during retirement. Therefore, the Drawdown Lifestyle Strategy has been set as the Scheme's default arrangement and this remains consistent with the aims and objectives of the default arrangement as described in the SIP.

The Trustee regularly monitors the investment performance of the default arrangement and formally reviews both the investment performance against the default arrangement's objectives and the suitability of the investment strategy at least every three years.

A strategic of the performance and suitability of the default arrangement was conducted on 24 March 2020. The review was undertaken by the Scheme's investment advisor Hymans Robertson, and it adopted an outcomes-based approach to review the default arrangement from a strategic perspective. The review tested the appropriateness of different aspects of the default arrangement including the growth phase and pre-retirement phase. The Trustee's objectives and beliefs were considered throughout the review of the current default arrangement and the proposed alternative default arrangement.

It is intended that the next full review will take place by 24 March 2023 or immediately following any significant change in investment policy or the Scheme's member profile.

The Trustee undertook an investment review on 24 March 2020 and some changes to the default arrangement were agreed in principle by the Trustee, with a view to improve member outcomes, however a final decision was deferred due to the transition of the Scheme Administrator from Mercer to Trafalgar House. The changes are due to be implemented during 2021 following a revisit of the proposed changes to ensure the Trustee remains in agreement with its decision in March 2020

- The allocation of equity within the growth phase to be increased from c.80% to up to 100%;
- Exposure to equities for members approaching retirement to be reduced to c.50%; and
- Adopting a 7 year phasing period, meaning that at 7 years before retirement the default arrangement would reduce the equity exposure gradually until the point of retirement. This is different to the current default arrangement where the phasing period begins at 3 years before retirement.

These changes were suggested because:

- An increased allocation to equity within the growth phase would improve member outcomes for those members who are far away from retirement. The extent of improvement would depend on the equity fund chosen and will be considered as part of the implementation process;
- A reduced allocation exposure to equities for members approaching retirement would help better preserve the value of savings build up by members over their lifetime by protecting against material losses due to adverse market movements in equities;
- A 7 year phasing period would help preserve the value of savings even further, by protecting against extreme market movements earlier in a member's journey to retirement; and
- The proposed default arrangement should meet the objectives set by the Trustee more effectively than the current one.

The Trustee carefully manages any changes to the Scheme to ensure they are carried out in an effective and sustainable manner and aiming to reduce the risk of any errors occurring.

Other investment options

The Trustee recognises that the default arrangement will not be suitable for the needs of every member and so the Scheme also offers members a choice of other investment options including alternative lifestyle strategies and self-select funds.

The alternative lifestyle strategies are the Annuity Lifestyle Strategy which targets buying an annuity at retirement, and the Cash Lifestyle Strategy which targets cash at retirement. The main objectives of the lifestyle strategies are:

- To give good member outcomes;
- To manage the principal investment risks that members face during their membership of the Scheme;
- To maximise investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for members who do not otherwise make investment choices; and
- To give further choice for members who feel that the default arrangement is not appropriate to their needs, but do not otherwise want to be involved in deciding where their contributions are invested.

The Trustee offers members a choice of 11 self-select funds. The main objectives of the self-select funds are:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension funds are invested;
- Complement the objectives of the default arrangement and alternative lifestyle strategies;
- Provider a broader choice of levels of investment risk and return and investment approaches, including responsible investing funds;
- Help members more closely tailor how their pension funds are invested to their personal needs, attitude to risk, and to reflect the benefits they intend to take at retirement.

The Trustee carries out an in-depth review of the performance and suitability of these other investment options at least every 3 years. The last full review was completed on 25 July 2018. A further review of the self-select investment offering in relation to Responsible Investment was carried out on 22 May 2019. An equity portfolio analysis was carried out on 22 July 2020.

In keeping with the Pensions Regulator’s guidance, the Trustee also carries out an annual high-level review of the performance and suitability of these other investment options. There were no issues with these investment options last year.

3 Costs and charges

The charges and costs borne by members and / or NFUM for the Scheme's services are:

Service	By members	Shared	By NFUM
Investment management	Yes		
Investment transactions	Yes		
Administration			Yes
Governance			Yes
Communications			Yes

The presentation of the charges and costs, together with the projections of the impact of charges and costs, takes into account the statutory guidance issued by the Department for Work and Pensions.

The Trustee has followed the statutory guidance in all areas.

Charges

The charges quoted in this Statement are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

Transaction costs

The funds' transaction costs are in addition to the funds' TERs and can arise when:

- The fund manager buys or sells part of a fund's portfolio of assets; or
- The platform provider or fund manager buys or sells units in an underlying fund.

Transaction costs vary from day to day depending on where each fund is invested and stock market conditions at the time. Transaction costs can include: custodian fees on trades, stockbroker commissions and stamp duty (or other withholding taxes).

Transaction costs are deducted before the funds' unit prices are calculated. This means that transaction costs are not readily visible, but these costs will be reflected in a fund's investment performance.

The Financial Conduct Authority ("FCA") requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

Member-borne charges and transaction costs

The charges and transaction costs have been supplied by the Scheme's investment managers.

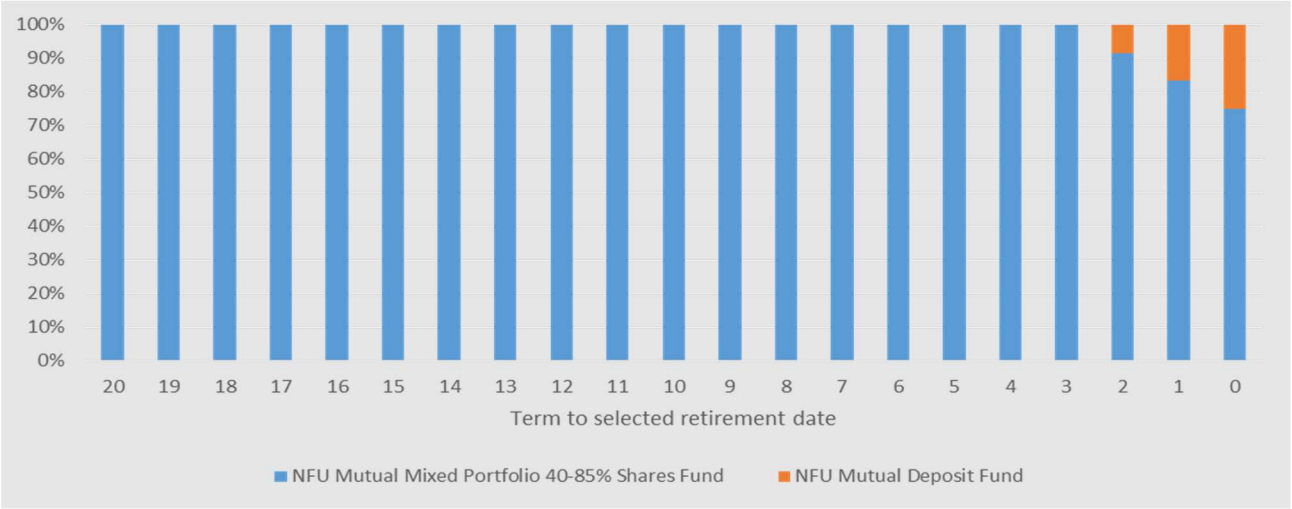
Default arrangements

The default arrangement is a "lifestyle strategy" which invests contributions in funds according to how far each member is from retirement. This means that the level of charges and transaction costs borne by members can vary from year to year depending on how close members are to their selected retirement age and in which fund they are invested at that time.

Over the Scheme Year the Trustee has changed the reference from "lifecycle strategy" to "lifestyle strategy" as the latter term is more commonly used across pensions communications.

Default arrangement charges and transaction costs

Drawdown Lifestyle Strategy



During the year covered by this Statement the member-borne charges for the default arrangement, the Drawdown Lifestyle Strategy, were in a range from 0.30% to 0.31% p.a. of the amount invested or, put another way, in a range from £2.95 to £3.10 per £1,000 invested.

The transaction costs borne by members in the default arrangement, the Drawdown Lifestyle Strategy, during the year were in a range from 0.03% to 0.04% of the amount invested or, put another way, in a range from £0.30 to £0.40 per £1,000 invested.

For the period covered by this Statement, the annualised charges and transaction costs are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
3 years or greater	0.31%	£3.10	0.04%	£0.40
2 years	0.31%	£3.05	0.04%	£0.37
1 year	0.30%	£3.00	0.03%	£0.33
At retirement	0.30%	£2.95	0.03%	£0.30

Source: NFUM Investments Team.

The average charge over a 40-year period for the default arrangement, the Drawdown Lifestyle Strategy, was 0.31%.

The table in Appendix 2a gives the charges and transaction costs for each fund used by the default arrangement.

The Scheme is a qualifying scheme for auto-enrolment purposes and the member borne charges for the default arrangement complied with the charge cap during the Scheme Year covered by this Statement.

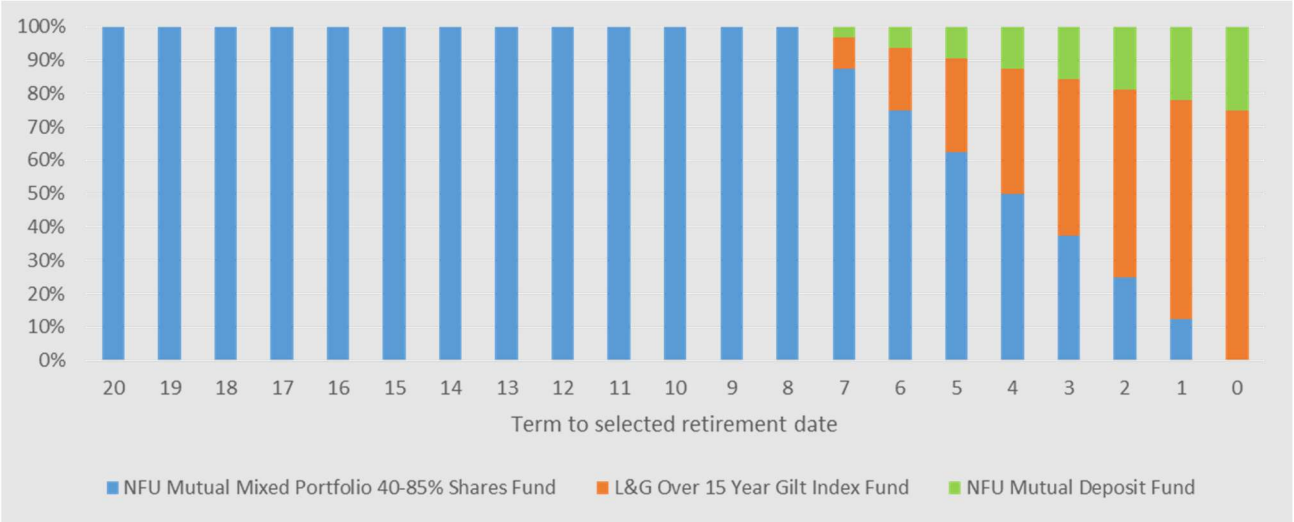
Charges and transaction costs for the investment options outside the default arrangement

In addition to the default lifestyle, members also have the option to invest in other lifestyles and self-select funds.

Lifestyle options

The lifestyle options outside the default arrangement also invest contributions in different funds according to how far each member is from retirement. The charges borne by each member can also vary from one year to the next.

Annuity Purchase Lifestyle Strategy



During the year covered by this Statement the member-borne charges for the Annuity Purchase Lifestyle Strategy were in a range from 0.15% to 0.31% p.a. of the amount invested or, put another way, in a range from £1.49 to £3.10 per £1,000 invested.

The transaction costs borne by members in the Annuity Purchase Lifestyle Strategy during the year were in a range from 0.03% to 0.04% of the amount invested or, put another way, in a range from £0.29 to £0.40 per £1,000 invested.

The annual charges for the Annuity Purchase Lifestyle Strategy during the period covered by this Statement are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
8 years or greater	0.31%	£3.10	0.04%	£0.40
7 years	0.29%	£2.90	0.04%	£0.39
6 years	0.27%	£2.70	0.04%	£0.37
5 years	0.25%	£2.50	0.04%	£0.36
4 years	0.23%	£2.30	0.03%	£0.34
3 years	0.21%	£2.10	0.03%	£0.33
2 years	0.19%	£1.89	0.03%	£0.31
1 year	0.17%	£1.69	0.03%	£0.30

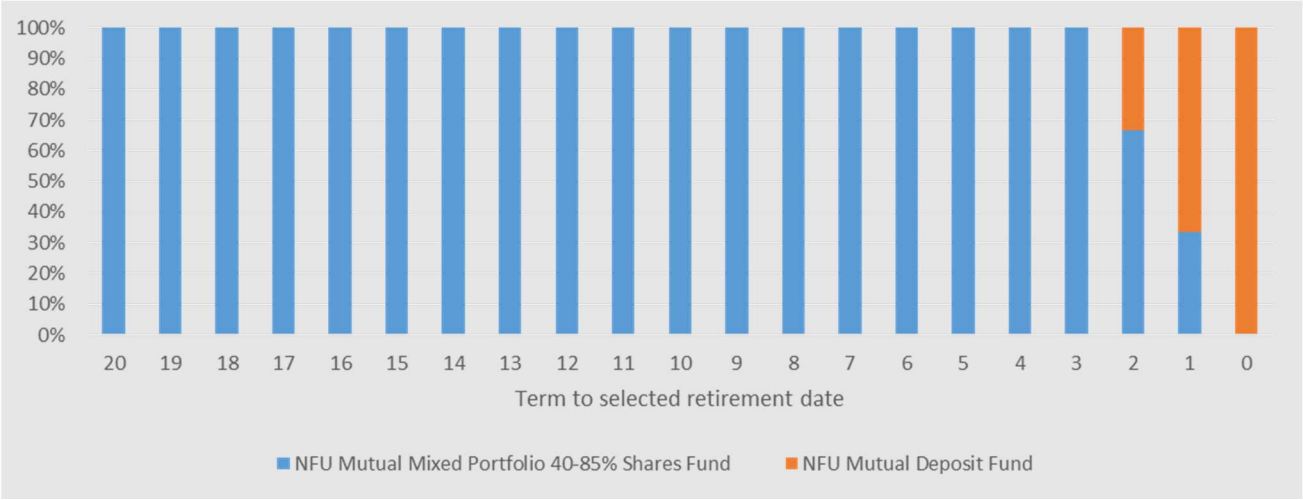
At retirement	0.15%	£1.49	0.03%	£0.29

Source: NFUM Investments Team & LGIM.

The average charge over a 40-year period for the Annuity Lifestyle Strategy was 0.29%.

The table in Appendix 2b gives the charges and transaction costs for each fund used by the Annuity Lifestyle Strategy.

Cash Lifestyle Strategy



During the year covered by this Statement the member-borne charges for the Cash Lifestyle Strategy were in a range from 0.25% to 0.31% p.a. of the amount invested or, put another way, in a range from £2.50 to £3.10 per £1,000 invested.

The transaction costs borne by members in the Cash Lifestyle Strategy during the year were in a range from 0.00% to 0.04% of the amount invested or, put another way, in a range from £0.00 to £0.40 per £1,000 invested.

The annual charges for the Cash Lifestyle Strategy during the period covered by this Statement are:

Period to retirement	Charge		Transaction costs	
	% p.a.	£ per £1,000	% p.a.	£ per £1,000
3 years or greater	0.31%	£3.10	0.04%	£0.40
2 years	0.29%	£2.90	0.03%	£0.27
1 year	0.27%	£2.70	0.01%	£0.13
At retirement	0.25%	£2.50	0.00%	£0.00

Source: NFUM Investments Team

The average charge over a 40-year period for the Cash Lifestyle Strategy was 0.31%.

The table in Appendix 2b gives the charges and transaction costs for each fund used by the Cash Lifestyle Strategy.

Self-select funds

During the year the charges for the self-select funds were in a range from 0.12% to 0.43% of the amount invested or, put another way, in a range from £1.16 to £4.30 per £1,000 invested.

The transaction costs borne by members in the self-select funds during the Scheme Year were in a range from a saving of 0.03% to a cost of 0.06% of the amount invested or, put another way, in a range from a saving of £0.34 to a cost of £0.60 per £1,000 invested.

The table in Appendix 2c gives the charges and transaction costs for each self-select fund, including those used in the default arrangement, over the period covered by this Statement.

Additional Voluntary Contributions ("AVCs")

There are 3 AVC Sections within the Scheme:

- **DB Group AVC**: Members of the DB Scheme choosing to invest their AVCs in the funds available within the Group AVC policy. Members also have the option of investing in the With Profits Fund. This includes members who have transferred in their AVCs from another scheme.
- **DB Deposit AVC**: Members of the DB Scheme choosing to invest in a cash fund that provides interest in line with the Bank of England rates.
- **DB DC AVC**: Members of the DB Scheme that elected to pay contributions to the DC Section of the Scheme, which ceased accepting contributions on the closure of the DB section on 31 December 2016.

The Scheme offers members in the defined benefit section a choice of the DB DC AVC which includes 11 self-select funds and 3 lifestyle strategies. The DB Deposit AVC and the DB Group AVC where members can choose from 7 self-select funds as well as a With Profits Fund.

Charges for Unit-Linked AVCs

During the Scheme Year the charges for the unit-linked AVC funds available within the DC section were in a range from 0.12% to 0.43% of the amount invested or, put another way, in a range from £1.16 to £4.30 per £1,000 invested.

The transaction costs borne by members in the unit-linked AVC funds available within the DC section during the Scheme Year were in a range from a saving of 0.03% to a cost of 0.06% of the amount invested or, put another way, in a range from a saving of £0.34 to a cost of £0.60 per £1,000 invested.

There are no charges or transaction costs for the NFUM Cash Fund, which invests members' contributions in the Trustee bank account.

The charges on the AVC funds differ depending on whether they are AVCs for the DC Section of the Scheme or for the DB Group AVC Section of the Scheme. During the Scheme Year the charges for the DB Group AVC Section were in a range from 0.63% to 0.81% p.a. of the amount invested, or put another way, £6.30 to £8.10 per £1,000 invested. The transaction costs borne by members in the DB Group AVC Section during the Scheme Year were in a range of 0.00% to 0.06% or, put another way, in a range of £0.00 to £0.60 per £1,000 invested.

The table in Appendix 2d gives the charges for the AVCs within the DC Section of the Scheme, whereas Appendix 2e gives the charges for the DB Group AVC Section of the Scheme.

AVCs invested in With Profits

Some members' AVCs are invested in the NFUM With Profits Series 2 Personal Pension Fund.

The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, the charges and transaction costs are effectively averaged

across all policyholders and it is not possible to determine the exact charges and costs borne by the members of our Scheme.

The Principles and Practices of Financial Management for the Series 2 With Profits Fund states that currently there is an implicit annual charge of 1% applied to asset shares. Although there are no explicit fund management charges, any bonuses will reflect an implicit charge to cover expenses. The With Profits Fund's average transaction costs are not disclosed.

It should be noted that the implicit costs and charges for the With Profits Fund cover the cost of guarantees and reserving as well as investment management and administration services.

The NFUM With Profits Series 2 Fund was reviewed in November 2018. As value for members cannot be assessed as easily as unit-linked funds, the review considered the Fund's financial strength, its investment strategy as well as bonuses and governance with respect to other comparable providers and derivatives. The assessment concluded that the With Profits Fund gives fair value for members.

Impact of costs and charges - illustration of charges and transaction costs

The Trustee has asked NFU Mutual to illustrate the impact over time of the costs and charges borne by members.

These illustrations show projected fund values in today's money before and after costs and charges for 2 typical members at stages from joining the Scheme at age 20 up to retirement.

The tables in Appendix 3 to this Statement show these figures for the default arrangement (the Drawdown Lifestyle Strategy) and the most popular self-select funds (which include a high-risk and a low-risk fund respectively) together with a note of the assumptions used in these illustrations.

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees 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.

As an example, we looked at a member who joined the default arrangement at age 20, with a starting pot size of £1,000, a starting salary of £24,105 and total employer and employee contribution rate of 8% per annum. If we were to deduct the level of charges and costs seen in the last year, every year until the member gets to retirement, this would reduce the final projected pot values at retirement in today's money from £103,000 to £96,100.

Notes on illustrations

- These illustrated values are not guaranteed and may not prove to be a good indication of how your own savings might grow;
- The transaction cost figures used in the illustration are those provided by the managers over the reporting period;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.

4 Value for Members

Each year, with the help of its advisers, the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good Value for Members. Value is not simply about low cost – the Trustee also considers the quality and scope of provision compared against similar schemes and available external benchmarks.

Approach

The Trustee adopted the following approach to assessing Value for Members for the last year:

- Services – considered the investment, administration, communication services where members bear or share the costs;
- Outcomes – weighted each service according to its likely impact on outcomes for members at retirement;
- Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons;
- Rating – each service was rated on the below basis.

Results for the Year ending 31 December 2020

The Trustee has concluded that the Scheme gave **Good** Value for Members in the year ending 31 December 2020, and particularly the member borne charges and transaction costs provided **Good** Value for Members

The Scheme gave **Good** overall value for money in the year ending 31 December 2020.

The ratings and weightings used for the Value for Members assessment was:

Rating	Definition
Excellent	The Trustee considers the Scheme offers excellent value for members, providing services within a top 20% quality/cost range compared with typical options for similar schemes.
Good	The Trustee considers the Scheme offers good value for members, providing services at better quality/cost compared with typical options for similar schemes.
Average	The Trustee considers the Scheme offers average value for members, providing similar services at similar quality/cost compared with typical options for similar schemes.
Below average	The Trustee considers the Scheme offers below average value for members, providing similar services at higher cost or more limited services for similar cost compared with typical options for similar schemes.
Poor	The Trustee considers the Scheme offers poor value for members providing services, within the bottom 20% quality/cost range compared with typical options for similar schemes.

The rationale for the rating of each service within the Value for Members assessment was in outline:

Service and weighting	Rating (out of 5)	Rationale
Investment 100%	**Good (4.4)**	The Scheme's investments are held with NFU Mutual and Legal and General Investment Management ("LGIM"). Charges were on the lower end when assessing against comparable schemes. The default arrangement is under the 0.75% p.a. charge cap requirement. The charges for the default arrangement, the Drawdown Lifestyle Strategy are in a range from 0.30% p.a. to 0.31% p.a. Over a 40-year saving period the average charge for the default arrangement is 0.31% p.a. This is slightly higher than the average charge of 0.28% p.a. in the DWP's 2020 survey for bundled schemes with over 1,000 members. The charges for the alternative lifestyle strategies range between 0.15% p.a. and 0.31% p.a. and the charges for the self-select funds range between 0.12% p.a. and 0.43% p.a. The transaction costs are comparable with those for similar funds used by other schemes. The transaction costs for the default fund range from 0.03% p.a. to 0.04% p.a. The transaction costs for the self-select funds range from a saving of 0.03% p.a. to a cost of 0.06% p.a. The Trustee is satisfied that the investment options are suitable for the Scheme's membership. The Trustee undertook an investment review on 24 March 2020 and some changes to the default arrangement were agreed in principle by the Trustee, with a view to improve member outcomes, however a final decision was deferred due to the transition of the Scheme Administrator from Mercer to Trafalgar House. The changes are due to be implemented during 2021 following a revisit of the proposed changes to ensure the Trustee remains in agreement with its decision in March 2020. Investment performance was not in line with the funds' objectives over shorter time periods, particularly due to the market turmoil caused by the coronavirus pandemic. However, longer-term performance is ahead of peers and ahead of passive funds with similar exposure to markets. Equity markets largely recovered in the second half of 2020, and the Trustee will closely monitor the funds' performance over 2021. The Statement of Investment Principles (SIP) was last reviewed on 23 September 2020, when changes reflecting new regulatory requirements on Responsible Investment were documented. An Implementation Statement showing how the Trustee has followed the policies in the SIP will be prepared and published on-line by 1 October 2020.

The Trustee also considers the broader overall value for money definition that considers all services where the member and/or the Society bear the costs. The Scheme was assessed as having given **Good** overall value for money in the year ending 31 December 2020.

Service and weighting	Rating (out of 5)	Rationale
Investment 70%	**Good (4.4)**	As above.
Administration 10%	**Below Average (2.5)**	The Scheme's administration was largely carried out within the agreed service standards with an overall 93.71% performance over the year. However, there were dips in service levels during January and February, with 85.9% within service levels. The Scheme Administrator is accredited to the ISO 9001:2000 standard and with PASA. Over the reporting period various administration issues occurred including late investment of contributions, issues with new joiners' investments, member complaints, a data breach and a near miss, incorrect unit pricing. The Trustee has undertaken a detailed review of the Scheme Administrator and decided to move to Trafalgar House after a rigorous tendering process. Trafalgar House are expected to take over administration responsibility on 1 July 2021.
Communications 10%	**Good (4.0)**	Members are provided with a range of communications both from the Scheme Administrator and the Pensions Team. Members have on-line access to Benpal which allows members to access and model their pension details. Over the reporting period, the annual benefit statements were sent in an online format as a move towards paperless communications. The investment and Scheme guides were reviewed and redesigned. The external website is being updated to add more educational materials for members.
Scheme management / Governance 10%	**Excellent (4.8)**	The Trustee has provided effective, independent oversight and management of the Scheme to ensure regulatory compliance, assess and enhance value, manage risks and ensure that members' interests are considered. The Trustee met 8 times during the year. The Chairman of the Trustee is a professional Trustee. The Trustee has reviewed its effectiveness, as well as its advisers' effectiveness during the year.

The Trustee has agreed an action plan for the following year to improve value where necessary and obtain any missing information. This action plan is detailed in section 7 of this Chair's Statement. Details of the missing information and value assessment limitations are detailed in the "Missing information" at the end of section 7.

5 Administration

The Trustee appointed Mercer to administer the Scheme on its behalf. JLT, previously known as the Scheme Administrators, were acquired by Mercer on 1 April 2019.

The Trustee monitored core financial transactions during the year including:

- The receipt and investment of contributions (including inward transfers of funds);
- Switches between investment options; and
- Payments of benefits (including retirements and outward transfers of funds).

The Trustee has a service level agreement in place with the Scheme Administrator covering:

- New joiner processing within 10 working days, regular contributions files within 3 working days and the allocation of contributions are processed within 5 working days;
- Provision of retirement pack and quotation of benefits within 10 working days;
- Provision of transfer value quotation within 10 working days;
- Payment of transfer value payments within 5 working days;
- Provision of leaver option pack within 10 working days;
- Processing individuals transferring in to the Scheme within 3 working days;
- Response to members enquiries within 10 working days; and
- Processing of investment switches within 3 working days.

Mercer confirmed that the service level agreements have not changed since the last reporting period ending 31 December 2019.

The Scheme's administrator, Mercer, aim to ensure that 95% of all these processes are completed within these service levels; the target is 95% for 'critical tasks' and 90% for other tasks. 'Critical tasks' include tasks related to retirements, transfers or material payroll requests, whereas other tasks include tasks such as general queries, updates to member data and payment of invoices.

The Trustee understands that the Scheme Administrator monitors its performance against these service levels by:

- Maintaining compliance with ISO 9001:2000 Certificate;
- Maintaining accreditation with the Pensions Administration Standards Association ("PASA");
- Monitoring daily transactions;
- Monitoring daily workflow items;
- Regular internal audits of administration procedures; and
- Reviewing the level, causes and resolution of complaints.

The Trustee monitored core financial transactions and administration service levels during the year by:

- Checking that contributions deducted from members' earnings have been paid promptly to the Scheme by NFU Mutual;
- Receiving bi-monthly reports from the administrator on the processing of financial transactions and other administration processes against the agreed service levels;
- Considering the reasons for and resolution of any breaches of service standards;
- Receiving reports from the Scheme's Auditor, who independently tests sample transactions for accuracy and timeliness; and
- Considering member feedback including any complaints and member surveys.

Data quality

Each year the Trustee asks the Scheme's administrator to confirm that they have undertaken an audit of the Scheme's common data (which is the key data needed by the Scheme to calculate members' benefits such as dates of birth), to ensure that the records for all members are accurate and up to date.

The last data quality audit was undertaken in August 2020. This showed that the combined (DB and DC) common data was present for 96% of membership data as at 19 August 2020 – compared to 98% last year so it has slightly deteriorated. The data quality audit also showed that DC conditional data was present for 93.3% of membership data as at 19 August 2020 – compared to 92.6% last year so it has slightly improved.

Over the next year the Trustee will look to improve the quality of the Scheme's common and conditional data.

Cyber security

The Trustee is conscious of the growing threat of cyber-attacks on pension scheme information.

The Trustee requires the Scheme's administrator to have effective and up to date cyber security protocols in place and this is independently verified in the administrator's annual AAF report. The Trustee expects that the Scheme's administrator will report any security breach immediately and ensure that members are notified as soon as possible. The Trustee undertook training on cyber security at the Trustee meeting on 27 January 2021 (which was outside of this Statement's reporting period).

The Scheme Administrators, Mercer, have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately, with the exceptions outlined below.

The Trustee identified the following issues with the processing of financial transactions / administration service levels during the year:

- Service level agreements were 85.9% in January and February 2020 which were below agreed levels;
- It was identified on 17 November 2020 that incorrect unit prices had been added to Benpal. This was an error of input and promptly corrected;
- Issues were identified with November 2019 and January 2020 new joiners investments along with a further eight members between June 2019 and March 2020;
- Following Mercer's DC centralisation project, it had been identified that April, May and July 2020 contributions had been invested late. A PwC audit for the Scheme identified that more months than originally thought could have been affected;
- A number of members raised questions surrounding the time it took for there to be a switch of investment, sale of units or transfer out;
- A number of members raised questions about an underpayment from Mercer resulting from errors within the calculation of benefits;
- Some members experienced delays in accessing Mercer via the payroll helpline number;
- A data protection breach occurred whereby three members' annual benefit statements had been sent to other members – these included the name and address of the affected members. The breach was reported to the Secretary to the Trustee, was recorded on the breach register and did not need to be reported to the ICO; and
- A near-miss data protection breach occurred whereby a letter had been sent to a member's previous address. The residents of the previous address confirmed that the letter had not been opened, and it was determined that a breach had not occurred.

The Trustee has taken the following steps to remedy the situation:

- The Secretary to the Trustee worked closely with Mercer on the new joiners' investments issues;
- The Trustee queried the fall in SLAs and noted that there had been some changes in the senior administration team at Mercer;
- Where communications had been wrongly sent to deceased members, apology letters were later issued;
- Administration issues were discussed at each Trustee meeting and corrective actions were agreed;
- Mercer had produced a paper recommending a number a changes that could be implemented in order to improve their service, which the Secretary to the Trustee considered;
- An action plan was undertaken in 2020 with Mercer to work on failures identified during 2019 common and conditional data test. This included address verification exercises and follow up chaser emails to confirm the correct address was held; and
- The Trustee has undertaken a formal review of Mercer and decided to appoint Trafalgar House to take over the Scheme administration.
    - Trafalgar House is an industry-leading provider focused on delivering exceptional service standards and member care, and the Trustee believes they are best placed going forwards to provide the level of service that members of the Scheme require.
    - The change of Administrator is due to occur on 1 July 2021. Members of the Scheme were written to, to confirm the change.
    - PwC were appointed to assist with the selection process. A rigorous selection process was undertaken, with Requests for Proposals issued to potential providers and a Working Party formed to lead the selection exercise. The Working Party scored the providers based on their responses and three providers proceeded to the final stage. Within this process, virtual site visits were carried out with the three short-listed providers.
    - The Working Party assessed the three providers and made a recommendation to the Trustee Board to appoint Trafalgar House.

The coronavirus pandemic inevitably affected administration of the Scheme over 2020 while Mercer arranged for most of its staff to work from home and dealt with increases in staff absences.

As a result, the processing of core financial transactions was delayed, and it was not possible to meet the usual service levels during this period for reasons outside Mercer's control. The service level agreements were suspended between March and May 2020, and were resumed in June 2020.

The Trustee was not satisfied that the service standards were competitive due to the administration issues and errors outlined above.

Overall, the Trustee is not satisfied that during the Scheme Year core financial transactions were processed accurately, promptly and efficiently due to the administration issues and errors outlined above. The Trustee has appointed Trafalgar House to take over from Mercer as Scheme Administrators.

Security of assets

The situation regarding the security of where pension contributions are invested is complex. It can vary from scheme to scheme and from fund to fund within each scheme. To-date, there have only been a few instances where members of Schemes such as ours have seen their benefits reduced as a result of a financial failure of a provider or fund manager.

The Trustee has reviewed the structure of the funds used within the default arrangement and other investment options. The Trustee believes that the current structures are appropriate for members when compared to other possible structures.

The Trustee takes the security of assets into account when selecting and monitoring the funds used by the Scheme. The Trustee is due to receive training on the security of members' assets in 2021 and will continue to keep this under review.

6 Trustee knowledge

The Scheme's Trustee is required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Sections 247 and 248 of the Pensions Act 2004 require that each Trustee Director must:

- Be conversant with the Trust Deed and Rules of the Scheme, the Scheme's Statement of Investment Principles (SIP) and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally; and
- Have, to the degree that is appropriate for the purposes of enabling the individual to properly to exercise his or her functions as a Trustee Director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The Trustee has measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

The Trustee's current practices to maintain and develop its level of knowledge and understanding of matters relating to the Scheme are:

- There is an induction process for newly appointed Trustee Directors, who are asked to complete the Pensions Regulator's "Trustee Toolkit" within 6 months of becoming a Trustee Director;
- Training is provided to ensure that Trustee Directors maintain a working knowledge of the Scheme's Trust Deed and Rules, the Scheme's SIP as well as the investment concepts and principles relevant to the Scheme, contract documents in relation to administration of the Scheme and the law and legislation relating to pension schemes and trusts;
- Trustee Directors are encouraged to undertake further study and qualifications which support their work as Trustee Directors;
- The Trustee Directors have a plan in place for ongoing training appropriate to their duties;
- The effectiveness of these practices and the training received are reviewed annually;
- The Trustee Directors carry out regular assessments to confirm and identify any gaps in their knowledge and skills; and
- The Trustee Directors also receive quarterly "hot topics" from their advisers covering technical and legislative / regulatory changes affecting defined contribution (and additional voluntary contribution) schemes in general.

The Trustee, with the help of its advisers, regularly considers training requirements to identify any knowledge gaps. The Trustee's investment advisers raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustee's advisers typically deliver training on such matters at Trustee meetings if they are material.

All the Trustee Directors have access to copies of and are familiar with the current governing documentation for the Scheme, including the Trust Deed & Rules (together with any amendments) and the SIP. The Trustee refers to the Trust Deed and Rules as part of deciding to make any changes to the Scheme, and the SIP is formally reviewed either at least every three years or as part of making any change to the Scheme's investments or to comply with new legislative or regulatory requirements. The SIP was last reviewed in 2020 and it was changed on 23 September 2020, to reflect new regulatory requirements on Responsible Investment.

All the Trustee Directors have completed the Pensions Regulator's Trustee Toolkit (the Trustee Toolkit is a free online learning programme from The Pensions Regulator aimed at trustees of occupational pension schemes and designed to help trustees meet the minimum level of knowledge and understanding required by law). A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. The Scheme has a structured induction process for new Trustee Directors.

There is a professional Trustee on the Board. Advisers attend all Trustee meetings. The professional Trustee and the advisers provide input and explanations or training on matters as they are discussed. This ensures that the Trustee receives "on the job" training.

A survey was used to get the Trustee Directors' views on the training received. The results were presented at a Strategy Day in January 2020. The Trustee indicated it was happy with the level of training received and that the Directors were able to enrol in any training to assist them in their role as Trustee Directors. The Trustee agreed in January 2020 that it did not wish to carry out a detailed questionnaire to identify training needs, but a flexible training plan was created to help agree a bespoke training plan based on specific needs.

The Trustee also carries out an annual evaluation of the performance and effectiveness of the Trustee Board as a whole, measured against the objectives in the Scheme's business plan. The Trustee carried out an effectiveness review in January 2020.

The Trustee tests its familiarity with the Scheme's documentation, pensions Law/Regulation and the Pensions Regulator's DC Code of Practice 13 and supporting guides by completing an annual assessment against the DC Code. The Trustee has a working knowledge of all documents setting out the Trustee's current policies. The Trustee has an Annual Business Plan in place which sets out a timeline for an ongoing review of these documents. The Trustee regularly updates these documents when they are due according to the Plan, or earlier, if required.

Further, to ensure that the Trustee is compliant with its duties it reviews the DC performance on a quarterly basis with its legal and investment advisers as part of its Trustee meetings.

The Trustee also has a Trustee training policy, which is updated and reviewed annually. It is also legally reviewed. The policy is to ensure the Trustee meets the Trustee Knowledge and Understanding requirements that are required of them, in particular those set out under the provisions of the Pensions Act 2004 and the Pension Regulator's Code of Practice on Trustee Knowledge and Understanding. The policy was last reviewed in July 2020.

During the period covered by this Statement, the Trustee received training on the following topics:

Date	Topic	Aim/benefit	Trainer
21/01/2020	Default Review Training	Review of default fund / self-select funds, whether the current approach reflects the Trustee's Investment Beliefs, how to improve outcomes for members, self-select suggestions & market developments. This benefits members by ensuring the Trustee has up-to-date knowledge on investment matters.	Hymans Robertson
21/01/2020	Trustee Protection & Insurances	This training aimed to increase Trustee knowledge relating to the Trust Deed/ personal indemnity, trustee liability insurance, Director & office insurance and cyber Insurance. Members benefit by the Trustee being aware of its protections.	Gowlings & NFUM DISC* Team

11/03/2020	Embedding Climate Change Risk	The Trustee received training that encouraged them to consider the impacts that climate change will have on members' returns within pension funds. Members benefit from the Trustee being aware of climate risk and how it can impact members.	Institute of Actuaries
22/07/2020	Updates to SIP and Implementation Statement	This training session updated the Trustee on the new requirements for changes within the SIP, as well as the production of the first Implementation Statement as at 31 December 2020. Members benefit by ensuring the Trustee is aware of the latest regulatory requirements.	Hymans Robertson
12/11/2020	Covenant Training	Aimed to provide an overview of requirements, background, guidance, structure, metrics & considerations of covenant assessments. Members benefit from the Trustee being informed about the Society's strength of covenant.	Willis Towers Watson
25/11/2020	Valuation Training	Provided the Trustee with an overview of the legislative and regulatory requirements in preparation for the actuarial valuation of the Scheme as at 31 December 2020. Members benefit from the Trustee having up-to-date information.	Willis Towers Watson
26/11/2020	Pension Scams	Conducted training via the Trustee Toolkit to help identify the most common warning signs of a pension scam, expectations around communicating regular scams warnings, questions to ask members to help protect them from scammers and what constitutes appropriate due diligence on scheme transfers. Members benefit from the Trustee having knowledge on this matter as pension scams are becoming increasingly common.	The Pensions Regulator

*Data Protection, Information Security, Business Continuity and Group Insurances (DISC) Team.
The Trustee notes some of the training sessions in the table above relate more to the Defined Benefit (DB) section of the Scheme rather than the Defined Contribution (DC) section. In addition, two Trustee Directors also took the opportunity to attend seminars and conferences over the reporting period that covered a variety of pension topics such as governance, DC decumulation options, DB transfers, how to offer support to members during difficult times and the consultation on the new DB code of practice.

The Trustee has appointed suitably qualified and experienced actuaries, legal advisers, investment consultants and benefit consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee review the effectiveness of its advisers annually and periodically reviews the appointment of its advisers. Over the Scheme Year the Trustee has reviewed the Scheme Administrator and decided to appoint Trafalgar House to take over from Mercer. More details about this change are outlined in Section 5 of this Statement on Administration.

The Trustee undertook the following reviews during the last year:

Date	Review of
21 January 2020	Training needs and requirements (see above for more details)
21 January 2020	Trustee Effectiveness (see above for more details)
24 March 2020	Default arrangement (see Section 2: Investment options for more details)
Throughout 2020	Scheme Administrator (see Section 5: Administration for more details)
25 November 2020	Reviewed its investment advisers against objectives set in line with the Competition and Markets Authority

As a result of these reviews, the Trustee is satisfied that during the Scheme Year it has:

• Taken effective steps to maintain and develop its knowledge and understanding; and
• Ensured it received suitable advice.

The Trustee is satisfied that the combination of its knowledge and understanding, including knowledge and understanding of the relevant principles relating to the funding and investment of occupational schemes, together with access to suitable advice enabled it to properly exercise its duties during the period covered by this Statement.

7 Our key actions last year and plans for the next year

During the Scheme Year the Trustee undertook the following (over and above "business as usual"):

- Improved Value for Members by:
    - Reviewing the Scheme communications, updating the investment and Scheme guide and taking steps towards electronic communications;
    - Completing a strategic review of the default arrangement; and
    - Undertaking a rigorous process to review the Scheme Administrator and deciding that Trafalgar House will take over from Mercer effective from 1 July 2021.
- Arranged for the publication of this Statement, together with the SIP in a publicly searchable location on the internet with a note of this location in the annual benefit statements: https://www.nfumstaffpensions.co.uk/ ; and
- Updated the SIP to reflect the new regulatory requirements on Responsible Investment, due by 1 October 2020. This included a requirement to explain how it incentivises investment managers to align their investment strategy with the Trustee's policies.

In the coming year (which will be covered by the next Chair's Statement), the Trustee intends to carry out the following:

- Improve Value for Members by:
    - Re-visit the proposed changes to the default strategy and, if still in agreement with its decision in March 2020 implement the changes.
    - Continuing to monitor the performance of the funds underlying the default arrangement as well as the other self-select funds;
    - Considering adding funds within the Responsible Investment space to improve member choice;
    - Completing the transition of the Scheme Administrator from Mercer to Trafalgar House, effective from 1 July 2021;
    - Completing the updates to the external website to include more member education on their options; and
    - Considering the requirements of the draft Single Code of Practice which is expected to come into force towards the end of 2021.
- Work with the fund managers (NFU Mutual and Legal & General) to widen their reporting on Responsible Investment and how they vote at shareholder meetings;
- Receive training on security of assets and review the security provided by existing fund structures;
- Seek feedback from members on the Scheme Administrator changes, as well as wider feedback; and
- Complete the first Implementation Statement describing how the Trustee has followed the policies in the Scheme's SIP.

The Trustee believes that this work will help you get the best out of our Scheme.

Missing information and limitations

The Trustee is satisfied that it has obtained full information on charges and transaction costs.

The Trustee notes the following limitations:

- The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policy holders. As a result, it is not possible to determine the exact charges and costs borne by members;
- The Trustee acknowledges that, at this point, limited data is available on industry-wide comparisons and has relies heavily on the market knowledge of its advisers; and
- There is limited transaction costs data available to provide industry-wide comparisons.

The Trustee understands that these issues currently affect many pension schemes and pension providers and that the amount of comparative information available should improve over the next few years.

Appendix 1

Statement of Investment Principles

Statement of Investment Principles

For the Retirement Benefit Scheme of the NFU Mutual Insurance Society Limited

1 Introduction

1.1 Background

This Statement of Investment Principles sets out the principles governing investment decisions for the Retirement Benefit Scheme of the NFU Mutual Insurance Society Limited (the "Scheme").

The Scheme offers both defined benefit (DB) and defined contribution (DC) benefits. This Statement cover the DC section of the Scheme and the DB AVCs. It is a qualifying scheme for auto-enrolment purposes.

1.2 Statutory Information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustee of the Scheme has considered written advice from the Trustee's DC section investment consultants and has consulted with the Principal Employer in producing this Statement.

This document is a compendium of the DC Statements of Investment Principles for the Scheme. These Statements must cover a number of technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme's Auditors.

The Trustee will publish the Statements of Investment Principles from 1 October 2019 and a statement each year from 1 October 2020 describing how these Statements have been followed in the last year.

1.3 Statements of Investment Principles

The Trustee's Statements of Investment Principles for the DC Section of the Scheme contained in this document include the:

1 Statement of the aims and objectives for the default arrangement*;

2 Statement of the aims and objectives for investment options outside the default arrangement*; and

3 Statement of investment beliefs, risks and policies**.

The Statement of Investment Principles for the DC Section of the Scheme ** comprises items 1, 2 and 3.

The Statement of Investment Principles for the Scheme's default arrangement *** comprises items 1 and 3.

Appendices

1. Summary of Responsibilities
2. Summary of the Scheme's service provider
3. Investment implementation for the default arrangement and the investment options outside the default arrangement

4. Fees and Charges

For the record

* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

** In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

*** As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015

The Trustee has taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles.

These Statements will be reviewed at least every three years or more frequently as required by the Regulations.

2 Statement of the aims and objectives for the default arrangement

The Trustee's overall objective is to invest contributions in the best interests of members and their beneficiaries.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members is essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits / retirement income streams.

2.1 Default Option

Reasons for Default Option

The Scheme has a Default Option because:

- It should be easy to become a member of the DC section of the Scheme and start building retirement benefits without the need to make any investment decisions.
- It is believed that a proportion of the membership are either unengaged in or unable to decide where their DC pot should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs;
- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a Default Option;
- The Trustee believes that the presence of an effective Default Option will help deliver good outcomes for members at and into retirement; and

Choosing the Default Option

In choosing what is felt to be an appropriate default, the Trustee has taken into account a number of factors including: members' projected pot sizes at retirement, contribution levels, and the likely return on investment after the deduction of charges payable on the funds used by the Default Option.

This analysis (which was carried out in 2015) showed that the majority of members are expected to have sizeable pots at the point of their retirement (i.e. £30,000 or above).

In terms of the active members, around 87% of all members retiring after 2019 are expected to have a pot size more than £50,000 and around 52% will have a pot size greater than £100,000. In terms of the deferred members, the median pot size is £31,000 (70% of members are expected to have pots less than £50,000 and 48% under £30,000).

The Trustee recognises that members may also have accrued benefits elsewhere.

Based on this analysis, the Trustee believes most members will want to take their retirement benefits as income drawdown during retirement. Therefore, the Drawdown Lifecycle Strategy has been set as the Scheme's Default Option (full details are provided in Appendix 3).

The Default Option was last reviewed in 2015 and will be reviewed on a formal basis at least every three years. A high-level review was carried out in 2017 following the closure of the DB section. The

former DB members moved to the DC Section and the Trustee decided that the strategy remained broadly appropriate. In 2018, a review was carried out and the Trustee decided that the strategy remained broadly suitable. A full strategic review is due to be undertaken in 2020 including the strategy and performance of the Default Option. However, in the meantime, the Trustee will monitor what members do at the point of retirement to ensure that the current Default Option remains appropriate.

Objectives of the Default Option

The main objective of the Default Option is to provide good member outcomes at retirement while subject to a level of investment risk which is appropriate to the majority of members who do not make active investment choices.

The Trustee believes that a lifecycle strategy is an appropriate default option. The principal objectives of the Default Option are:

- To manage the principal investment risks faced by an average member during their membership of the DC section of the Scheme;
- To target the majority of members who are expected to use Flexible Access Income Drawdown ("FAD") during their retirement;
- To invest in funds which are expected over the long-term to deliver strong returns relative to inflation for members up to 3 years from retirement;
- During the last 3 years before retirement, to increasingly invest in cash to a target allocation of 25%, recognising the 25% tax free cash allowance available to members at retirement, whilst also helping to mitigate fluctuations in fund values.

The Default Option (the Drawdown Lifecycle Strategy) invests in the NFU Mutual Mixed Portfolio 40-85% Shares Fund in order to aim to grow members' assets in real terms until 3 years before retirement. Three years from a member's selected retirement date, the strategy gradually de-risks into 25% cash.

The expected levels of investment returns and risks for the funds used are consistent with the Trustee's objectives for the Default Option. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in section 4.

Full details of the Default Option are provided in Appendix 3.

Temporary Default Arrangements

In some instances, it may be necessary for the Trustee to direct contributions towards a fund or strategy that differs from members' original selection. The Trustee will ensure that an alternative fund or strategy selected in this manner is consistent with the charge cap for default arrangements.

For example, in the event of a suspension of trading in a fund selected by members, the Trustee may deem that it is in members' best interests to redirect contributions to a cash fund. This approach provides security to members through the legal protections provided by Trust-based arrangements such as the Scheme, as well as a likelihood of preserving the value of contributions paid by members. In such instances once an issue such as suspension of trading in a fund, is resolved, the Trustee will arrange with the Investment Manager for the re-investment of contributions into the fund or strategy originally selected by members.

In all instances of this nature, the Trustee will notify members of the issue and steps being taken to address this.

3 Statement of the aims and objectives for investment options outside the default arrangement

3.1 Alternative Lifecycle Strategies

In addition to the Default Option, the Trustee offers alternative Lifecycle Strategies to members. Full details of these strategies are provided in Appendix 3.

3.2 Self-select funds

The self-select fund range is provided for members who want to take an active part in choosing where their DC Pot is invested and complements the Default Option and the alternative Lifecycle Strategies.

3.3 Reasons for the investment options

In addition to the Default Option, the Scheme offers members a choice of investment options because:

- While the Default Option is intended to meet the needs of a majority of the Scheme's members, it may not meet the needs of a wider cross-section of members;
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

3.4 Objectives

The Lifecycle Strategies

The main objective of the alternative Lifecycle Strategies is to give good member outcomes.

The Trustee believes that it is in the best interests of members in the alternative Lifecycle Strategies to:

- Manage the principal investment risks members face during their membership of the Scheme;
- Maximise investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for members who do not otherwise make investment choices; and
- Give further choice for members who feel that the Scheme's Default Option is not appropriate to their needs, but do not otherwise want to be involved in deciding where their contributions are invested.

The alternative Lifecycle Strategies give members a choice compared to the Default Option of:

- Targeting cash at retirement or buying an annuity at retirement.

The Self-Select Options

The objectives of the self-select fund range is to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension funds are invested;
- Complement the objectives of the Default Option and the alternative Lifecycle Strategies;
- Provide a broader choice of levels of investment risk and return;
- Provide a broader choice of investment approaches, including responsible investing funds;
- Help members more closely tailor how their pension funds are invested to their personal needs and attitude to risk; and
- Help members more closely tailor how their pension funds are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members. Full details of the investment options are provided in Appendix 3.

4 Statement of investment beliefs, risks and policies

4.1 Introduction

This Statement sets out the investment beliefs and policies which guide the Trustee's decision making.

For the record

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

This Statement of investment beliefs has been prepared in accordance with the Occupational Pension Scheme (Investment) Regulations 2005 as amended by the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the Occupational Pension Schemes (Investment and Disclosure) Regulations 2019.

4.2 Investment beliefs

The Trustee's investment decisions are made in the context of its investment beliefs:

Policy and objectives

1. The Trustee believes that investment in assets expected to exceed price inflation and salary growth are most appropriate for longer-term investing.

2. The Trustee believes that members' attitudes to risk and circumstances should be considered when developing and maintaining an appropriate investment strategy.

3. Longer-term generally means 5 to 10 years but depends on the specific investment markets in which the Scheme participates.

4. The Trustee believes that environmental, social and corporate governance ('ESG') issues can, along with other factors, have a material impact on the long-term performance from the Scheme's investments. For example, companies that demonstrate better Environmental, Social and Governance ("ESG") characteristics are expected to outperform other companies, over the longer-term.

5. Engagement on specific ESG risks (such as climate change and executive pay) can be an effective way of supporting shareholder value. There may be occasions where disinvestment is more effective, accepting that this may be more challenging to achieve in relation to passively managed funds.

6. It is relevant for the Trustee to consider the Society's Responsible Investment policy when setting its own policy, and to communicate this to its members.

Strategy and structure

1. Members are mostly concerned with maximising investment returns when far from retirement and are expected to be more concerned about risk as they approach retirement.

2. Diversification is a desirable risk management tool for all stages within a default lifecycle strategy.

3. A majority of members will use their fund flexibly, rather than purchase an annuity at retirement, and are likely to have a longer time horizon before they take their benefits as a result, leading to a higher tolerance for investment risk as a result.

4. Recognising that members may wish to use their fund in different ways, and may have different ethical and religious views, a range of retirement options should be catered for, subject to demand from members. However, too much choice can lead to lack of decision making or poor choices in the absence of the right information.

5. Risks should be appropriately rewarded i.e. taking risks can be justified where the expected increase in investment return reflects the change in level of risk.

6. Financial and non-financial factors should be considered when determining the strategic and implementation options for DC members. Climate change is a key long-term financial risk to sustainability and achieving fund outcomes.

Implementation

1. Passive management (i.e. tracking a benchmark index) can have a place within a default investment strategy and range of self-select funds.

2. Active management can have a place within a default investment strategy, provided any increase in charges is expected to improve value for members.

3. The DC section investment managers should embed the consideration of both financial and non-financial (including ESG) factors into their investment process and decision making.

4. Investment managers may be better placed than the Trustee to consider ESG factors in day to day investment decisions, however the Trustee should assess whether the approaches taken are consistent with its own policy and in the interests of members.

Governance and monitoring

1. The Trustee is responsible for ensuring that the Scheme's governance policies, including Responsible Investment, are adhered to. This should be supported by sufficient reporting from its investment managers, including reporting on ESG factors.

2. Manager performance should be assessed over an appropriate timeframe and after allowing for the impact of costs and charges.

3. Strong investment governance should be supported by effective Trustee training across all areas of the investment process, incorporating Environmental, Social & Governance (ESG) considerations.

4. There should be the ability for members to monitor progress against a pre-determined benefit target and adjust their investment risk and contributions as appropriate.

4.3 Investment Risks

Principal risks

The principal investment risks which most members face are:

Inflation risk – The risk that the investment returns over members' working lives will not keep pace with inflation and do not produce adequate retirement benefits.

For members further from retirement, the Default Option and alternative Lifecycle Strategies invest in return-seeking assets during the accumulation phase, which are expected to produce returns well in excess of inflation over the longer-term. These funds are also included in the self-select fund range. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

Benefit conversion risk – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

For members planning to take cash at retirement, the Cash Lifecycle Strategy switches into a cash fund during the de-risking phase and the self-select range offers a fund investing in cash deposits and other short-term interest bearing securities providing a high degree of (but not complete) capital security.

For members planning to use income drawdown during their retirement, the Default Option (the Drawdown Lifecycle Strategy) maintains assets in return seeking investments up to the point of retirement and introduce a holding in cash in the three years running up to retirement. The self-select range also offers such funds.

For members planning to buy an annuity at retirement, the Annuity Purchase Lifecycle Strategy switches into gilt and cash funds during the de-risking phase and the self-select fund range offers funds investing in longer-dated bonds, which may be expected to broadly follow movements in annuity rates caused by interest rate changes as retirement approaches.

Volatility/Market risk – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

All of the lifecycle strategies introduce an element of cash in the final years before retirement which will help to mitigate losses in other markets. The remainder of portfolios are invested in a mix of assets which helps to spread risk, although there is no absolute return focus in the funds used in the lifecycle strategies.

Other investment risks

Other potentially material investment risks which members may face include:

Counterparty risk – The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.

The Trustee, in conjunction with its investment managers, manages counterparty risk by investing in pooled funds that offer suitable counterparty protection.

Active management risk – The risk that an investment manager delivers investment returns below investment markets generally, taking into account the risk taken by the manager.

The Trustee recognises that an actively managed fund may not deliver performance in line with the fund's objectives / agreed benchmarks. The Trustee regularly monitors fund performance in order to monitor this risk.

Liquidity risk – The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.

The Trustee is satisfied that the pooled funds in which it invests usually have sufficient liquidity and may be realised quickly if required. Member communications will warn members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

Diversification risk – The risk that a lack of diversification in the fund offering, and also within the funds themselves, increases the risk exposure for members. See section 2.7 for further comment on diversification.

Environmental, Social and Governance (ESG) risks – The risk that ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

The Trustee has a policy on ESG risks, and will take additional actions to accommodate these risks, such as communicating to members its Responsible Investment policies and also ensuring managers maintain compliance with these policies. The Trustee monitors this on an ongoing basis.

Climate risk – The risk that climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee has a policy on ESG and climate risk and monitors climate risk on an ongoing basis, making changes as and when necessary.

Managing investment risks

The Trustee has developed and maintained a framework for assessing the impact of all investment risks on long-term investment returns.

Time horizon

The Trustee monitors the age profile of the Scheme's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks:

- The Scheme is open to new entrants with no specific minimum age. However, the minimum legal age for individuals to take up employment and hence entitlement to join the Scheme is age 16;
- As a result, investment risks need to be considered over a 44-year time horizon;
- A majority of members are expected to take income drawdown in retirement;
- As a result, investment risks for a majority of members who are approaching retirement need to be considered over a time horizon of at least 15 years, reflecting a period from age 60 to age 75 i.e. the period from NRD to when annuity rates may be expected to become attractive
- Some members may choose to buy an annuity from age 55 and investment risks for this group need to be considered carefully. There may be a difference between the member's time horizon

and the time horizon for underlying investments which are expected to reflect the maturity profile (and interest rate sensitivity) of the assets backing an insurer's annuity business.

Principal investment risks

The Trustee believes that taking investment risk is usually rewarded in the long-term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustee offers the Default Option and alternative Lifecycle Strategies which include a spread of assets. These strategies manage the risk as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement. The Trustee believes that the investment options available are appropriate for managing these risks.

The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of a majority of members.

Ability to invest/disinvest promptly

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds and that these can be sold promptly for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. The investment managerer is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

Other investment risks

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Scheme.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

At this time, the Trustee has not made explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee does discuss the potential impact of climate risks with its adviser and managers on a periodic basis and will monitor developments in this area.

4.4 Financially material considerations

The Trustee recognises that the consideration of financially material considerations, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Scheme's investment options.

Implementation

The Scheme uses standard pooled funds offered by investment providers and fund managers. The Trustee nevertheless seeks to manage financially material considerations to protect long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;

- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes and are satisfied that the fund managers follow an approach which takes account of financially material factors;
- For actively managed funds (where the fund manager decides where to invest), expect the fund managers to take financially material considerations into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustee believes will deliver appropriate risk adjusted returns. The Trustee will review the index benchmarks employed for the Scheme on at least a triennial basis;
- For all funds, expect fund managers to engage with a significant proportion of the companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and
- Prefer fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

Expected returns on investments:

The expected returns on the principal asset classes and fund types within the Scheme are:

Asset Class	Expected Return
Equities	Should achieve a strong positive return relative to inflation over the longer-term but tend to be the most volatile asset class over the shorter-term.
Property	Should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with a lower level of shorter-term volatility than equities.
Corporate Bonds	Should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property.
Fixed Interest Government Bonds (Gilts)	Should deliver a positive return relative to inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds.
Index-linked Government Bonds (Index-Linked Gilts)	Should deliver a return in line with inflation over the longer-term, but with a lower level of shorter-term volatility than equities, property and corporate bonds (with similar term).
Cash	Should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high degree of capital security. In some situations e.g. due to low interest rates, a cash fund can produce a negative return net of charges. However, the volatility associated with investment in cash is expected to remain minimal.
Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds	Values should move broadly in line with the financial factors influencing annuity rates.
Multi-Asset Funds	Invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.
Responsible Investment	i.e. funds selecting assets to mitigate ESG and/or climate change risks. The strategy of these funds is expected to give a better risk adjusted return over the long-term than the broader market for the type of assets involved (e.g. equities).

4.5 Non-financial factors

The Trustee recognises that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.

The Trustee has conducted periodic surveys to ascertain members' views on non-financial factors relating to the Scheme's investments, most recently in 2018. Nevertheless, while the Trustee will bear members' views in mind when reviewing the suitability of the Scheme's investment options and choice of funds used, the Trustee will not be bound by the members' views (for instance where it is uneconomic or impracticable to do so).

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under-perform other funds with broader-based investment approaches.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

4.6 Investments held

The Scheme invests through pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes. These funds may invest in quoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property.

The Default Option and alternative Lifecycle Strategies use funds across asset classes and across the risk/reward spectrum. The self-select fund range offers members a choice of funds across asset classes and across the risk/reward spectrum.

The Trustee believes that both active and passive management have a place in defined contribution arrangements.

The Trustee considers that all of the stated asset classes are suitable investments for the Scheme, while the use of pooled funds enables a balance of investments to be held at a security level within each asset class or fund.

The Scheme uses funds provided through an operator of collective investment funds. This enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner. It does mean that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the fund managers.

Manager incentives

The Trustee expects that it will be in the fund managers' interests to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask its investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should the fund managers be found to be giving poor value. In

addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Scheme's choice of fund managers to ensure their charges and services remain competitive. The Trustee believes that these steps are the most effective way of incentivising the fund managers to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options and the suitability of the Scheme's investment management arrangements is also considered.

The Trustee monitors the investment managers against a series of metrics on a quarterly rolling annual basis over a long-term time horizon of 5 years including:

- Performance of their funds' respective benchmarks or performance targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The fund managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

Portfolio turnover

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long-terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small, where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of its investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the fund managers to report on at least an annual basis on the underlying assets held within funds with details of any transactions and turnover costs incurred over the Scheme's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups subject to availability of appropriate industry data to support comparisons.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the fund managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

Portfolio duration

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon. The Trustee will carry out necessary due diligence on the underlying investment

decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

Security of assets

The funds are provided through an operator of collective investment funds. As a result, the value of the funds may be affected in the event of the operator getting into financial difficulties.

The underlying funds provided via the operator are accessed through reassurance agreements/unit purchase agreements/segregated investment mandates. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the operator and the fund vehicles used by the fund managers.

Realisation of investments

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the Lifecycle Strategies or as requested by individual members. The Trustee normally expects the investment manager to be able to realise the Scheme's funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.

Nevertheless, the Trustee recognises that most members' pension funds have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

Diversification

Given the size and nature of the Scheme, the Trustee invests on a pooled fund basis, which is undertaken through investment managers. The investment managers are expected to maintain diversified portfolios. Subject to the Funds' benchmarks and guidelines, and the restrictions imposed on the holdings within the NFU Mutual Mixed Portfolio 40-85% Shares Fund and the NFU Mutual Mixed Portfolio 20-60% Shares Fund, the investment managers are given full discretion over the choice of securities and, for multi-asset funds, of asset classes.

The Trustee is satisfied that the range of funds used by the Scheme provide adequate diversification within and across asset classes.

Member attitude to risk

The Trustee recognises that:

- Members have differing investment needs and that these needs change during the course of their working lives; and
- Attitudes to investment risks, and the need for investment returns, will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

As a result, the Trustee believes that a range of investment options should be offered to members.

The Trustee believes it is in the best interests of members to offer a default strategy which manages the principal investment risks members face during their membership of the Scheme. The Default Option is therefore a lifecycle strategy which the Trustee believes is broadly appropriate to the needs of a majority of the membership. Details on the reasons for the Scheme having the current Default Option, as well as the objectives of the Default Option, can be found in section 3.2.

Member benefit choices at retirement

Members potentially now have a choice at retirement of:

- Taking cash at retirement;
- Taking Uncrystallised Funds Pension Lump Sums ("UFPLS") for several years into retirement;
- Using Flexible Access Income Drawdown ("FAD") during their retirement; or
- Buying an annuity at retirement or several years into their retirement.

The Trustee has considered which of these flexibilities will be offered to members. Currently cash together with a single UFPLS in the early years of retirement will be provided within the Scheme, but members wanting to use FAD and perhaps buy an annuity at a later date need to transfer their DC Pot to an arrangement outside the Scheme.

The Trustee believes that members' choices of benefits at retirement will be strongly influenced by:

- The size of their DC Pot in the Scheme;
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefits) and workplace group personal pension plans.
- Other sources of income including non-pension savings and partner's pension provision.

In practice, the Trustee can only reliably take the likely size of members' DC Pots in the Scheme into account. The Trustee believes that a typical member, without significant sources of income outside the Scheme, could be expected to act mostly as follows:

- Small pots – would be taken as cash or UFPLS over a few years in retirement.
- Medium sized pots – would be taken as UFPLS over several years in retirement or buy an annuity at retirement.
- Larger pots – would be taken as Cash at retirement and FAD during retirement, although some may use part of their DC Pot to buy an annuity at, or some years into, retirement.

The Trustee believes that it is in the best interests of members to have a default arrangement that targets the method by which the majority of members are expected to take retirement benefits. Currently the Trustee expects the majority of members will use their pot at retirement to access FAD and so the Default Option is designed to have a portfolio of assets at the point of retirement that maintains assets in return seeking assets.

5 Stewardship policies

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with fund managers and the monitoring of compliance with agreed policies.

The Scheme offers members the Deafult Option and a choice of alternative Lifecycle Strategies and self-select funds. The Trustee's stewardship activities are focused on the Default Option which is used by the largest number of members and accounts for the majority of the Scheme's DC assets.

5.1 Members' financial interests

The Trustee has requested and expects that the investment managers have the financial interests of the members as their first priority when choosing investments.

5.2 Voting and Engagement

The Trustee believes that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

The Scheme invests via funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers and determined that these policies are appropriate. On an annual basis, the Trustee will request that the fund managers provide details of any change in their house policy.

Where appropriate, the Trustee will engage with and may seek further information from fund managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but believes it is sometimes appropriate for the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to its investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will request, where appropriate and practicable, that the fund managers notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee aims to review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

6 Monitoring policies

6.1 Investment Performance

The Trustee regularly reviews the performance of each fund in which the Scheme invests against its stated performance objective. This will also include monitoring the levels of portfolio turnover in the event that significant under or out-performance occurs.

An independent review of NFU Mutual Investment Society Limited was carried out by Xafinity in 2015.

6.2 Default Option

The Trustee monitors the suitability of the objectives for the Default Option and the performance (after the deduction of charges) of the Default Option against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

6.3 Alternative Lifecycle Strategies

The Trustee monitors the suitability of the objectives for the alternative Lifecycle Strategies and the performance (after the deduction of charges) of the alternative Lifecycle Strategies against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

6.4 Charges

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee annually to ensure that they represent "value for money" relative to the needs of the membership.

The Scheme is a qualifying scheme for auto-enrolment purposes. The Trustee regularly monitors the compliance of the Default Option with the charge cap introduced by the Pensions Act 2014, which applies from April 2015.

Details of the current charges are set out in Appendix 4 to this Statement.

6.5 Transaction costs

The Trustee will monitor the funds' transaction costs to ensure that they are reasonable and represent value for money to members.

6.6 Investment process

The Trustee monitors the processes whereby contributions in respect of members are invested in and money is disinvested from the investment options to pay benefits.

6.7 Voting

The Trustee regularly monitors and reviews the fund managers' records of exercising shareholder voting rights and engaging with equity and bond issuers on matters which may materially affect the value of investments.

The Trustee expects the fund managers to adhere to their stated voting and engagement policies, engage with companies where concerns are identified and to report on these issues on a regular basis. The Trustee requests and reviews reports from the fund managers on their voting and engagement activity in conjunction with their investment adviser on at least an annual basis. This information will be used as a basis for discussion with fund managers. The Trustee will also periodically review the fund managers' voting patterns and may also monitor voting on particular companies or issues affecting more than one company.

The Trustee reviews the fund managers' voting activity on an annual basis. Where the Trustee deems it appropriate, any issues of concern will be raised with the manager for further explanation.

The Trustee aims to meet with all fund managers on a regular basis. The Trustee will provide the fund managers with an agenda for discussion, including issues relating to individual holdings voting record and, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

6.8 Chair's statement

The Chair's statement which has been included in the Annual Report and Accounts, starting the 2015/16 Scheme year, confirms the results of the monitoring during the preceding year.

7 Governance

7.1 Trustee's Powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

7.2 Responsibilities

The key responsibilities in connection with the governance of the Scheme are set out in Appendix 1.

7.3 Conflicts of interest

The Trustee maintains a register of interests of each of the Trustee Directors and their advisers. This register is reviewed at each Trustee meeting to ensure that any potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

In the event of a conflict of interests, the Trustee will need to ensure that contributions for the Default Option are invested in the sole interests of members and beneficiaries.

The Trustee regularly monitors and reviews instances where the actions of the fund managers may be in conflict with the best interests of the Scheme's members.

7.4 Communication

The Trustee communicates regularly with all stakeholders to ensure that they are aware of the Trustee's responsibilities in relation to investment. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Providing communications to Scheme members;
- Producing the Annual Report and Accounts which includes the Chair's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the investment consultants, investment managers and the administrator;
- Providing a range of literature to assist members in making their investment decisions. In addition, members should be provided access to factsheets for each fund showing the latest asset allocation and past performance.

7.5 Service Providers

Details of the current service providers and investment managers to the Scheme are set out in Appendix 2 to this Statement.

7.6 Fees

Details of the current fees for the Scheme's service providers and funds are set out in Appendix 4 to this Statement.

8 Review of Statement

This Statement of Investment Principles was reviewed in July 2020. It will be next reviewed no later than 2023.

Signed on behalf of the Trustee of the Scheme:

Name	Signature	Date
Brian Duffin	Brian Duffin	23/09/2020

Name	Signature	Date
Jonathan Priestley	Jonathan Priestley	23/09/2020

For the record

The Trustee obtains and considers proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustee to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds used at each stage of the default arrangement and the alternative lifecycle options are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

The DC section of the Scheme invests through pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes. The fund managers use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares);
- Fixed interest and index-linked bonds issued by governments and companies;
- Cash and other short-term interest-bearing deposits;
- Commercial and residential property;
- Illiquid assets including infrastructure, forestry, private equity and private debt;
- Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority (“FCA”) “Permitted Links” rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European “UCITS IV” and the FCA’s “Non-UCITS” regulations have to meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds’ benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustee considers that these types of investments are suitable for the DC section of the Scheme. The Trustee is satisfied that the funds used by the DC section of the Scheme provide adequate diversification both within and across different asset classes.

Appendix 1 - Responsibilities

Trustee

The Trustee's primary investment responsibilities:
Operating the Scheme in accordance with its Trust Deed and Rules.
Ensuring that the investment options are suitable for the DC section of the Scheme's membership profile.
Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultants.
Appointing investment consultants and other advisors as necessary for the good stewardship of the DC section of the Scheme.
Appointing the investment managers who invest the Scheme's assets. Having taken advice from the DC section of the Scheme's investment consultants, the Trustee is satisfied that the appointed investment managers have sufficient experience and expertise to carry out their role.
Assessing the performance, charges and processes of the investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the investment consultants.
Monitoring compliance of the investment arrangements with this Statement on a regular basis.
Preparing an annual Chair's statement for inclusion in the Annual Report and Accounts.

Investment Consultants

The investment consultants' main responsibilities:
Assisting the Trustee in the preparation and annual review of this Statement in consultation with the Principal Employer.
Providing advice to the Trustee on default strategy, alternative lifecycle strategies and the self – select fund range.
Undertaking project work including reviews of investment strategy, investment performance and manager structure as required by the Trustee.
Providing general advice in respect of the Scheme investment activities in respect of the DC section.
Providing views on the investment managers used by the DC section of the Scheme and assists the Trustee in the selection and appointment of appropriate investment managers when necessary.
Providing training or education on any investment related matter as and when the Trustee sees fit.

Investment Managers

All day-to-day investment management decisions have been delegated to the Investment Managers authorised under the Financial Services & Markets Act 2000.

The investment managers' main responsibilities:
Ensuring that investment of the DC section of the Scheme's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.
Investing in the funds selected by the Trustee.
Attending meetings with the Trustee as and when required.
Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the DC section of the Scheme as and when they occur.
Exercising voting rights on share holdings in accordance with their general policy.
Following its general policy on socially responsible investment.

Administration

The administrator's main investment related responsibilities:
The prompt investment and reconciliation of contributions.
Undertaking switches between funds as required.
Operating the Default Option and alternative Lifecycle Strategies.
Maintaining records of the members' investments.
Realising investments to pay benefits.
Providing members with annual benefit statements.

Custodian

The custody arrangements are those operated by the investment managers for all clients investing in their funds. The custodians are responsible for ensuring the security of the Funds' underlying assets and recording sales and purchases of the Funds' underlying assets.

Employer

The Employer is responsible for paying the contributions and for providing support to the Trustee to help govern the Scheme.

Members

Members are responsible for choosing the investment options in which contributions are invested, consistent with their tolerance of risk, likely benefits at retirement and their level of understanding and ability to take investment decisions.

Appendix 2 – Service Providers

The Trustee has appointed the following service providers:

Investment Consultant

The investment consultant is Hymans Robertson LLP.

Investment Managers

The investment managers are:

- The National Farmers Union Mutual Insurance Society Limited ("NFU Mutual");
- Legal & General Investment Management Limited ("LGIM").

Custodians

The Funds' custodians are appointed by the investment managers.

Administration

The administration of the Scheme is carried out by:

- Mercer

Appendix 3 – Investment Options

Funds used in Default Option and Alternative Lifecycle Strategies

The following funds are used as part of the Default Option and Alternative Lifecycle Strategies.

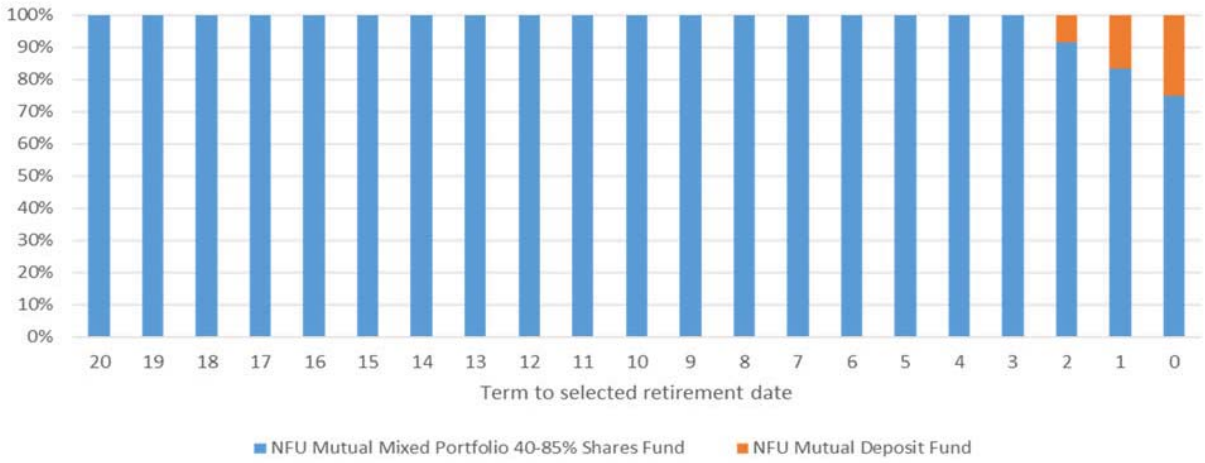
Fund name	Objective	Asset classes	Management style
NFU Mutual Mixed Portfolio 40 – 85% Shares Fund	Aims to achieve long-term growth. It invests in a combination of NFU Mutual's funds, to maintain a spread across different types of investment. This fund can invest up to 85% in equities.	Shares/ Property/ Cash/ Bonds	Active
NFU Mutual Deposit Fund ("Cash")	To invest in secure UK money market accounts for competitive rates of interest.	Cash	Active
L&G Over 15y Gilt Index Fund ("L&G Over 15y Gilts")	Invests in longer dated bonds issued by the UK Government. Aims to perform in line with the long dated gilt market.	Bonds	Passive

Default Option

Drawdown Lifecycle Strategy

This strategy is designed for members who are unlikely to buy an annuity at retirement and are more likely to draw down regular cash lump sums instead.

This strategy invests in the NFU Mutual Mixed Portfolio 40-85% Shares Fund in order to aim to grow members assets in real terms until 3 years before their selected retirement date. Three years from a member's selected retirement date, the strategy gradually de-risks into 25% cash. This has been designed assuming a member takes advantage of the 25% tax-free cash allowance at retirement, with the remaining 75% targeting a portfolio that is invested in a manner consistent with the investment strategy of a typical income drawdown portfolio (as much as this is possible).

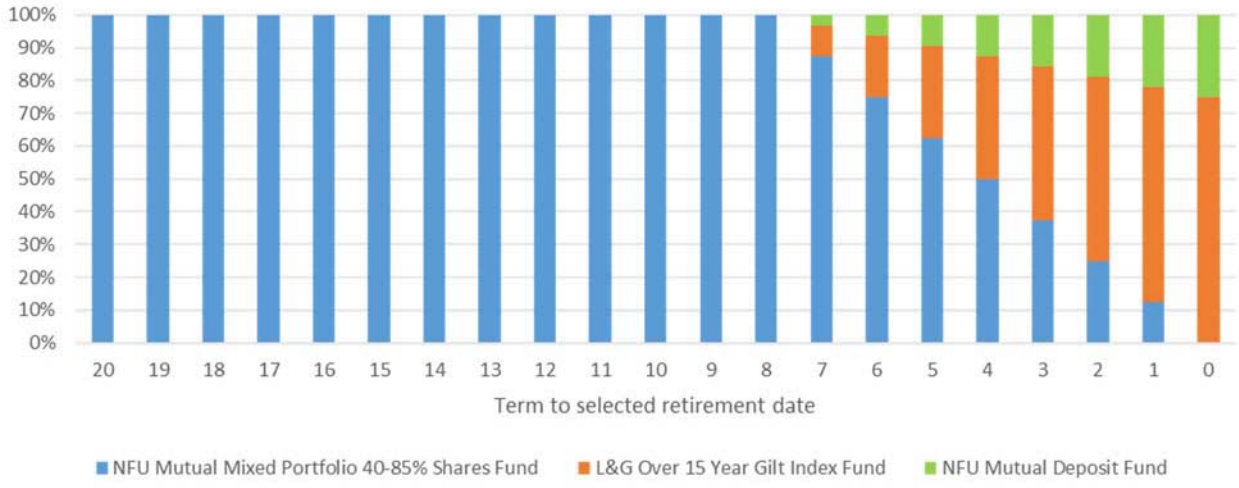


Alternative Lifecycle Strategies

Annuity Purchase Lifecycle Strategy

This strategy is designed for members who are likely to buy an annuity at retirement.

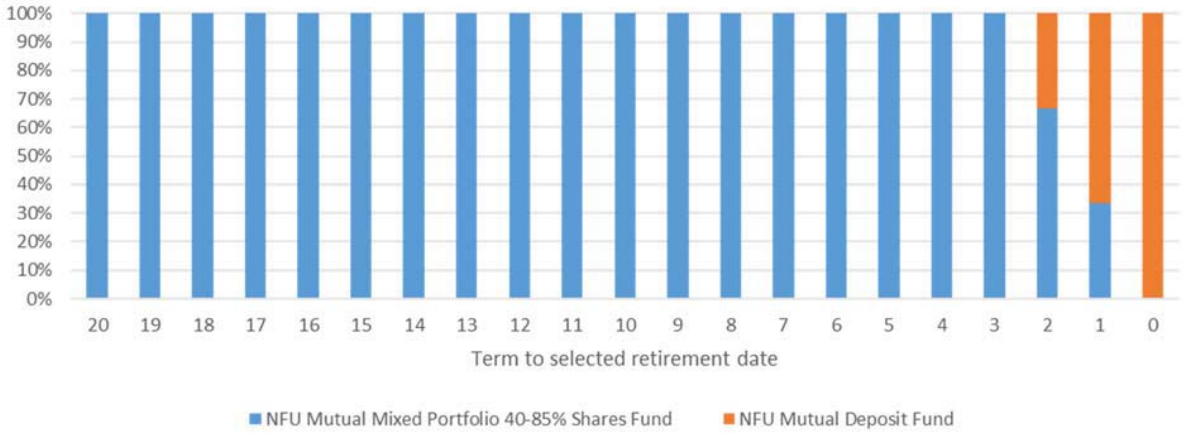
This strategy invests in the NFU Mutual Mixed Portfolio 40-85% Shares Fund until 8 years from a member's selected retirement age. It then begins to de-risk gradually into a long-dated gilt fund and from 3 years from a member's selected retirement age also de-risks into cash so that at the point of retirement a members' assets are invested 75% gilts and 25% cash. This is designed assuming a member takes advantage of the 25% tax-free cash allowance at retirement, with the remaining 75% targeting the purchase of a fixed annuity at retirement (providing protection from annuity conversion risk in the run up to retirement).



Cash Lifecycle Strategy

This strategy is designed for members who will likely take their entire pot as cash at retirement.

This strategy invests in the NFU Mutual Mixed Portfolio 40-85% Shares Fund until 3 years before retirement. Three years from a member's selected retirement date, the strategy gradually de-risks into 100% cash.

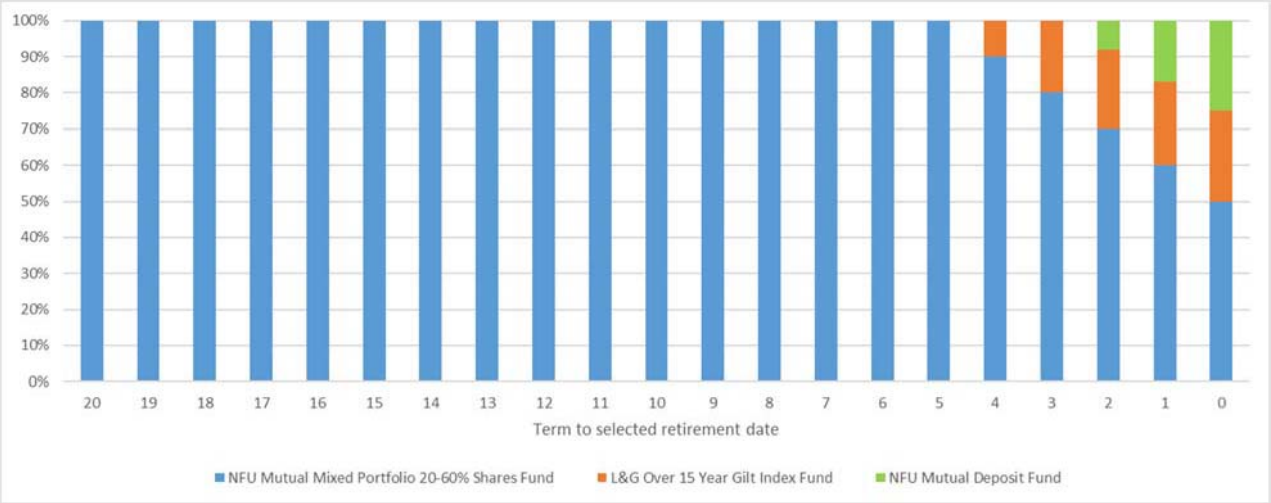


Legacy Lifecycle Strategies

Cautious Fund Income Drawdown Strategy

This is a legacy lifecycle strategy which has not been available to members since 2013. The Trustee has agreed that whilst they would retain this strategy for existing members, it would not be offered to members who are not currently contributing to it.

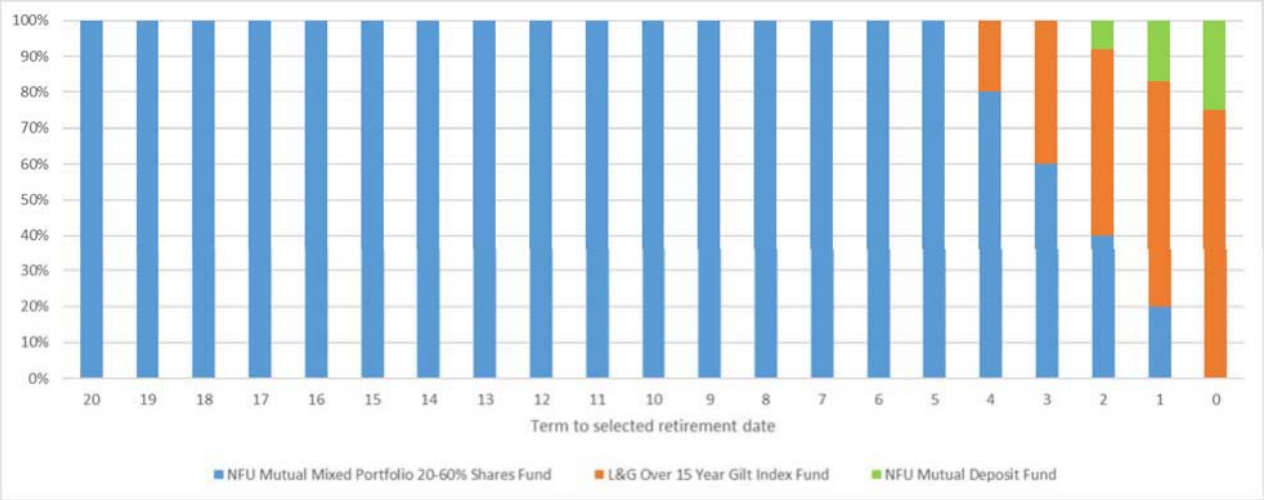
It invests in the NFU Mutual Mixed Portfolio 20-60% Shares Fund until 5 years from a member's selected retirement age. It then begins to de-risk gradually into a long-dated gilt fund, and from 3 years from a member's selected retirement age also de-risks into cash so that at the point of retirement a members' assets are invested 50% NFU Mutual Mixed Portfolio 20-60% Shares Fund, 25% gilts and 25% cash.



Cautious Fund Annuity Purchase Lifecycle Strategy

This is a legacy lifecycle strategy which has not been available to members since 2013. The Trustee has agreed that whilst they would retain this strategy for existing members, it would not be offered to members who are not currently contributing to it.

It invests in the NFU Mutual Mixed Portfolio 20-60% Shares Fund until 5 years from a member's selected retirement age. It then begins to de-risk gradually into a long-dated gilt fund, and from 3 years from a member's selected retirement age also de-risks into cash so that at the point of retirement a members' assets are invested 75% gilts and 25% cash. This is designed assuming a member takes advantage of the 25% tax-free cash allowance at retirement, with the remaining 75% targeting the purchase of a fixed annuity at retirement (providing protection from annuity conversion risk in the run up to retirement).



Additional notes

Active members can select their own target retirement age for the Default Option and alternative Lifecycle Strategies, failing which the target age of the option defaults to age 60. Deferred members cannot select a target retirement age greater than age 60, and if they have become deferred after age 60, then their date of leaving is treated as their retirement date, and any lifecycle option is switched to the appropriate allocation at the next quarterly lifecycle date.

Members cannot invest concurrently in self-select funds and a lifecycle strategy or more than one lifecycle strategy.

Legacy DB Additional Voluntary Contributions (AVCs) arrangement

The Scheme has a legacy DB AVC arrangement. Prior to 31 December 2016, DB members who wished to pay AVCs into the DC section of the Scheme were eligible to do so.

This was usually when DB members had exceeded the 15% contribution limit to the DB AVCs arrangements i.e. the Group or the Deposit AVC. In addition, DB members who transferred benefits into the Scheme from a previous arrangement would have had the transfer-in set up as a DC pot within the DC section of the Scheme, rather than having had added years as a transfer-in arrangement.

DB AVCs were invested in the same funds available to members in the DC section of the Scheme i.e. the NFU Mutual funds and the L&G Funds.

This option ceased for DB members effective from 1 January 2017, when the DB section closed to future accrual. From this date, all the DB AVC pots were closed and members had a new DC pot set up in the DC section, to receive their ongoing regular contributions and DC AVCs.

Self-Select Fund Range

Members are offered a choice of self-select investment funds across a range of asset classes and investment styles:

Fund name	Fund manager	Objective	Asset classes	Management style
Equity funds				
NFU Mutual UK Equity Fund	NFU Mutual	To provide long-term growth by investing in UK company stocks and shares.	Shares	Active
L&G UK Equity Index Fund	LGIM	To provide long-term growth by seeking to track the total return on the FTSE All Share Index.	Shares	Passive
L&G Global Equity 50:50 Index Fund	LGIM	To provide long-term growth by investing in UK and overseas company shares.	Shares	Passive
NFU Mutual International Fund	NFU Mutual	To provide long-term growth by investing in overseas shares.	Shares	Active
Multi-asset funds				
NFU Mutual Mixed Portfolio 40 – 85% Shares Fund	NFU Mutual	Aims to achieve long-term growth. It invests in a combination of NFU Mutual's funds, to maintain a spread across different types of investment. This fund can invest up to 85% in equities.	Shares/ Property/ Cash/ Bonds	Active
NFU Mutual Mixed Portfolio 20 – 60% Shares Fund	NFU Mutual	This fund will invest principally in other funds managed by NFU Mutual with the balance invested in third party funds with compatible objectives. This fund can invest up to 60% in equities.	Shares/ Property/ Cash/ Bonds	Active
Property funds				
NFU Mutual Property Fund	NFU Mutual	To aim for long-term growth through investment in property and/or property-related shares.	Property/ Property Shares	Active
Bond funds				
NFU Mutual Index-Linked Fund	NFU Mutual	Aims to provide a return from a portfolio investing mostly in index-linked Government or investment grade corporate index-linked securities.	Bonds	Active
L&G Over 15y Gilt Index Fund	LGIM	Invests in longer dated bonds issued by the UK Government. Aims to perform in line with the long dated gilt market.	Bonds	Passive
NFU Mutual Fixed Interest Fund	NFU Mutual	Aims to provide a return from a portfolio of bonds and other fixed and floating rate securities denominated mainly in sterling and issued by governments, government agencies, supranational and companies (including preference shares).	Bonds	Active
Cash funds				
NFU Mutual Deposit Fund	NFU Mutual	To invest in secure UK money market accounts for competitive rates of interest.	Cash	Active

Each of the funds offered by the Trustee as part of the Default Option, alternative Lifecycle Strategies and self-select range are managed in line with benchmarks set by the individual managers. The performance of the NFU Mutual funds is compared against ABI Sector benchmarks. The performance of the L&G funds is compared against the relevant market index.

The Trustee is in the process of reviewing the objectives and benchmarks for each of the funds offered to members. This Statement will be updated following the results of this review.

Reverse switching

The Scheme does not offer reverse switching. If a member who is invested in the Default Option or one of the alternative Lifecycle Strategies decides to change their target retirement age, their investment strategy will not be amended in line with the new retirement date.

Appendix 4 – Fees and Charges

Investment Consultant

The Scheme's Investment Consultant is paid for on a fixed fee basis. The Trustee believes that this approach ensures that all advice is impartial and independent.

Investment Management

The investment managers apply the following charges for investing in the funds selected by the Trustee:

Default Option

Fund	Total Expense Ratio (TER)
NFU Mutual Mixed Portfolio 40 – 85% Shares Fund	0.24% p.a. (up to 17 November 2019) 0.30% p.a. (from 18 November 2019)
NFU Mutual Deposit Fund	0.25% p.a.

The Trustee monitors the total charges of the funds used in the Default Option at quarterly reference points. The total charges borne by members in the Default Option over a rolling 12 month period comply with the charge cap. Members in the Default Option will see TERs range from 0.24% p.a. up to 17 November 2019 and from 0.29% p.a. to 0.30% p.a. from 18 November 2019.

Self-select fund range

Fund	Total Expense Ratio (TER)
NFU Mutual Mixed Fund (40 – 85% Shares)	0.24% p.a. (up to 17 November 2019) 0.30% p.a. (from 18 November 2019)
NFU Mutual Mixed Portfolio 20 – 60% Shares Fund	0.33% p.a.
NFU Mutual UK Equity Fund	0.25% p.a.
L&G UK Equity Index Fund	0.12% p.a.
NFU Mutual International Fund	0.25% (up to 17 November 2019) 0.43% (from 18 November 2019)
L&G Global Equity 50:50 Index Fund Index Fund	0.19% p.a.
NFU Mutual Fixed Interest Fund	0.15% p.a.
L&G Over 15y Gilt Index Fund	0.12% p.a.
NFU Mutual Index-Linked Fund	0.15% p.a.
NFU Mutual Property Fund	0.35% p.a.
NFU Mutual Deposit Fund	0.25% p.a.

The charges for the investment options are borne by the members.

The charges for the routine administration of the Scheme are borne by the participating employer.

The custodian charges are deducted from the funds before the funds' net asset values and unit prices are calculated.

The funds' total charges and transaction costs are monitored by the Trustee. The results of this monitoring are set out in the annual Chair's statement which is included in the Trustee's annual report and accounts.

Administration

The administration service provider is paid for on a fixed fee basis.

The administration costs are met by the Employer.

Appendix 2

Table of funds and charges

2a Default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last Scheme Year used in the default arrangement, the Drawdown Lifestyle Strategy, were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Mixed Portfolio 40-85% Shares Pn Fund	GB00BYXPBB77	0.31%	£3.10	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual Managed Plan Deposit Pn Fund	GB00BYXPB392	0.25%	£2.50	N/A		0.00%	£0.00

Source: NFUM Investments Team.

2b Lifestyle options outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last Scheme Year used in the Annuity Lifestyle Strategy were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Mixed Portfolio 40-85% Shares Pn Fund	GB00BYXPBB77	0.31%	£3.10	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual Managed Plan Deposit Pn Fund	GB00BYXPB392	0.25%	£2.50	N/A		0.00%	£0.00
L&G Over 15 Year Index Gilt Index Fund	N/A	0.12%	£1.12	N/A		0.04%	£0.38

Source: NFUM Investments Team and LGIM.

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year used in the Cash Lifestyle Strategy were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Mixed Portfolio 40-85% Shares Pn Fund	GB00BYXPBB77	0.31%	£3.10	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual Managed Plan Deposit Pn Fund	GB00BYXPB392	0.25%	£2.50	N/A		0.00%	£0.00

Source: NFUM Investments Team.

2c Self-select funds outside the default arrangement

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the self-select funds were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Managed Plan Fixed Interest Pn Fund	GB00BYXPB400	0.15%	£1.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Index Linked Pn Fund	GB00BYXPB731	0.15%	£1.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Property Pn Fund	GB00BYXPBD91	0.35%	£3.50	N/A		0.06%	£0.60
NFU Mutual Managed Plan Deposit Pn Fund	GB00BYXPB392	0.25%	£2.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Mixed Portfolio 40-85% Shares Pn Fund	GB00BYXPBB77	0.31%	£3.10	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual Managed Plan Mixed Portfolio 20-60% Shares Pn Fund	GB00BYXPB954	0.36%	£3.60	*Top holdings:* NFU Mutual Gilt and Corporate Bond I Fund NFU Mutual UK Equity Income I Fund NFU Mutual North America Equity Core Fund NFU Mutual Corporate Bond Fund NFU Mutual UK Growth Inc Fund NFU Mutual UK Government Bond Fund		0.05%	£0.50

				NFU Mutual UK Equity Core Fund NFU Mutual UK Smaller Companies Fund			
NFU Mutual Managed Plan UK Equity Pn Fund	GB00BYXPBF16	0.25%	£2.50	N/A		0.02%	£0.20
NFU Mutual Managed Plan International Pn Fund	GB00BYXPB848	0.43%	£4.30	N/A		0.01%	£0.10
L&G UK Equity Index Fund	N/A	0.15%	£1.46	N/A		-0.03%	-£0.34
L&G Global Equity 50:50 Index Fund	N/A	0.20%	£1.98	N/A		0.01%	£0.09
L&G Over 15 Year Gilt Index Fund	N/A	0.12%	£1.16	N/A		0.04%	£0.38

Source: NFUM Investments Team.

Some transaction costs are shown as negative, meaning that the fund makes a gain due to investment managers' ability to garner these costs as part of trading.

2d Additional Voluntary Contributions (AVCs) for members in the defined contribution section

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the AVC funds were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Managed Plan Fixed Interest Pn Fund	GB00BYXPB400	0.15%	£1.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Index Linked Pn Fund	GB00BYXPB731	0.15%	£1.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Property Pn Fund	GB00BYXPBD91	0.35%	£3.50	N/A		0.06%	£0.60
NFU Mutual Managed Plan Deposit Pn Fund	GB00BYXPB392	0.25%	£2.50	N/A		0.00%	£0.00
NFU Mutual Managed Plan Mixed Portfolio 40-85% Shares Pn Fund	GB00BYXPBB77	0.31%	£3.10	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual Managed Plan Mixed Portfolio 20-60% Shares Pn Fund	GB00BYXPB954	0.36%	£3.60	*Top holdings:* NFU Mutual Gilt and Corporate Bond I Fund NFU Mutual UK Equity Income I Fund NFU Mutual North America Equity Core Fund NFU Mutual Corporate Bond Fund NFU Mutual UK Growth Inc Fund NFU Mutual UK Government Bond Fund		0.05%	£0.50

				NFU Mutual UK Equity Core Fund NFU Mutual UK Smaller Companies Fund			
NFU Mutual Managed Plan UK Equity Pn Fund	GB00BYXPBF16	0.25%	£2.50	N/A		0.02%	£0.20
NFU Mutual Managed Plan International Pn Fund	GB00BYXPB848	0.43%	£4.30	N/A		0.01%	£0.10
L&G UK Equity Index Fund	N/A	0.15%	£1.46	N/A		-0.03%	-£0.34
L&G Global Equity 50:50 Index Fund	N/A	0.20%	£1.98	N/A		0.01%	£0.09
L&G Over 15 Year Gilt Index Fund	N/A	0.12%	£1.16	N/A		0.04%	£0.38

Source: NFUM Investments Team.

The Financial Conduct Authority ("FCA") requires fund managers and providers to calculate transaction costs using the "slippage method", which compares the value of assets immediately before and after a transaction has taken place. This can give rise to negative transaction costs where favourable stock market movements during a transaction offset the rest of the trading costs (such as stockbroker commission).

2e Additional Voluntary Contributions (AVCs) for members in the Defined Benefit (DB) Group AVC section

The funds' charges (as "Total Expense Ratios") and transaction costs in the last year for the AVC funds in the DB Group AVC section were:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
NFU Mutual Mixed Portfolio 40 – 85% Shares Fund	GB0006188121	0.70%	£7.00	*Top holdings:* UP International Fund UP Equity Fund UP Fixed-Interest Fund UP Deposit Fund UP Property Fund		0.04%	£0.40
NFU Mutual UK Equity Pn Fund	GB0006188238	0.63%	£6.30	N/A		0.02%	£0.20
NFU Mutual International Pn Fund	GB0006188451	0.81%	£8.10	N/A		0.01%	£0.10
NFU Mutual Property Pn Fund	GB0006188675	0.63%	£6.30	N/A		0.06%	£0.60
NFU Mutual Index-Linked Pn Fund	GB0006188568	0.63%	£6.30	N/A		0.00%	£0.00
NFU Mutual Fixed Interest Pn Fund	GB0006188345	0.63%	£6.30	N/A		0.00%	£0.00
NFU Mutual Deposit Pn Fund	GB0006188782	0.63%	£6.30	N/A		0.00%	£0.00

Source: NFUM Investments Team.

The Scheme also holds AVCs in the following funds:

Fund	ISIN *	Charges **		Underlying Fund***	ISIN *	Transaction costs	
		% p.a. of the amount invested	£ p.a. per £1,000 invested			% p.a. of the amount invested	£ p.a. per £1,000 invested
DB Deposit AVC	N/A	0.00%	£0.00	N/A		N/A	N/A
NFU Mutual With Profits Series 2 Fund [1]	N/A	1.00%	£10.00	N/A		N/A	N/A

1. The charges and transaction costs for With Profits Funds are deducted from the overall fund before bonus rates are set for all policyholders. As a result, it is not possible to determine the exact charges and costs borne by members.

Source: NFUM Investments Team.

* ISIN = the International Securities Identification Number unique to each fund.
** Charge = the funds' Total Expense Ratio ("TER"), which includes the funds' Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE").
*** Underlying Fund = the fund in which the Scheme's top level Fund invests.

Over the Scheme Year the Trustee has changed the reference from "lifecycle strategy" to "lifestyle strategy" as the latter term is more commonly used across pensions communications.

Appendix 3

Tables illustrating the impact of charges and costs

The following tables show the potential impact over time of the costs and charges borne by 2 typical members on projected values at retirement in today's money at several times up to retirement for a selection of funds and a range of contribution levels. These illustrations were produced by the NFUM Investments Team.

3a For the default arrangement and most popular self-select funds (4% employee contributions / 4% employer contributions)

	Fund Choice							
	Drawdown Lifestyle Strategy		International Equities Fund		Property Fund		Deposit Fund	
Years	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted
1	£2,930	£2,920	£2,950	£2,940	£2,940	£2,930	£2,860	£2,850
3	£6,890	£6,850	£7,010	£6,950	£6,920	£6,870	£6,460	£6,430
5	£10,900	£10,800	£11,200	£11,100	£11,000	£10,900	£9,910	£9,840
10	£21,600	£21,200	£22,800	£22,300	£21,900	£21,400	£17,800	£17,600
15	£33,200	£32,200	£35,900	£34,600	£33,800	£32,700	£25,000	£24,500
20	£45,600	£43,900	£50,600	£48,200	£46,800	£44,700	£31,400	£30,600
25	£58,900	£56,200	£67,300	£63,200	£60,900	£57,600	£37,100	£36,000
30	£73,200	£69,200	£86,000	£79,800	£76,200	£71,200	£42,200	£40,800
35	£88,700	£82,900	£107,000	£98,100	£92,900	£85,800	£46,800	£45,000
40	£103,000	£96,100	£131,000	£118,000	£111,000	£101,000	£50,900	£48,700

3b For the default arrangement and most popular self-select funds (8% employee contributions / 12% employer contributions)

	Fund Choice							
	Drawdown Lifestyle Strategy		International Equities Fund		Property Fund		Deposit Fund	
Years	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted	Before Charges	After all costs & charges deducted
1	£5,810	£5,800	£5,850	£5,830	£5,820	£5,810	£5,680	£5,670
3	£15,600	£15,500	£15,900	£15,800	£15,700	£15,600	£14,700	£14,600
5	£25,800	£25,500	£26,400	£26,100	£25,900	£25,600	£23,400	£23,200
10	£52,400	£51,500	£55,200	£53,900	£53,100	£52,000	£43,500	£42,900
15	£81,100	£78,900	£87,600	£84,500	£82,700	£80,000	£61,400	£60,300
20	£112,000	£107,000	£124,000	£118,000	£114,000	£110,000	£77,500	£75,700
25	£145,000	£138,000	£165,000	£155,000	£149,000	£141,000	£91,900	£89,300
30	£180,000	£170,000	£212,000	£196,000	£188,000	£175,000	£104,000	£101,000
35	£219,000	£205,000	£264,000	£242,000	£229,000	£212,000	£116,000	£111,000
40	£256,000	£238,000	£323,000	£292,000	£274,000	£250,000	£126,000	£121,000

1. Projected pension pot values are shown in today's terms and do not need to be reduced further for the effect of future inflation.
2. The starting pot size is assumed to be £1,000.
3. Inflation is assumed to be 2.5% each year.
4. Member contributions of 8.0% and employer contributions of 12.0% of salary are assumed to be paid each year.
5. The starting salary is assumed to be £24,105.
6. Contributions are assumed to increase in line with assumed earnings inflation of 2.5% each year.
7. Values are estimates and are not guaranteed.
8. The projected growth rate for each fund or arrangement are as follows:

NFU Mutual Mixed Portfolio 40-85% Shares fund:	1.5% above inflation
NFU Mutual International Equities fund:	2.5% above inflation
NFU Mutual Property Fund	1.8% above inflation
NFU Mutual Deposit Fund	2.3% below inflation

9. The figures for the Drawdown Lifestyle Strategy assume that lifestyle switching occurs from year 37 onwards.
10. Over the Scheme Year the Trustee has changed the reference from “lifecycle strategy” to “lifestyle strategy” as the latter term is more commonly used across pensions communications.