

JANUS HENDERSON GROUP UK PENSION SCHEME

Chairman's Annual Statement on Defined Contribution (DC) Governance

Introduction

On behalf of Janus Henderson Group Pension Trustees Limited (the Trustee), I am pleased to present the latest annual governance statement. As the Chairman of the Trustee, the law requires that I prepare an annual statement demonstrating how governance standards are assessed and met. This statement covers the Scheme year from 1 January to 31 December 2018.

The Trustee recognises that good governance is central to ensuring that the Scheme is run in the best interests of our members to help them achieve their goals for retirement. Although this statement focuses on a number of specific areas of governance that we are required to disclose by law, the Trustee also aims to adopt good practice governance standards across all areas of Scheme management, with the aim of meeting the quality standards set out in The Pension Regulator's DC code of practice and DC regulatory guidance.

If you have any questions regarding this statement or require any further information, please contact the Scheme Secretary, Roddy Harman.

The default investment arrangement

The Trustee is responsible for investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement. Throughout 2018, the default arrangement for members who have not actively selected an investment choice was the Lifestyle Diversified Growth Fund. The Trustee considers the default to be appropriate primarily for a member intending to take 25% of their savings as a cash lump sum and using the remaining 75% to buy an annuity on retirement. The Trustee recognises that this will not be appropriate for all members and, therefore, encourages members to make their own investment decisions. As at the 31 December 2018, approximately 42% of money purchase section members had not made an investment choice and were invested in the default arrangement.

Member self-selection

Members can choose to invest in four different Lifestyle options (including the Lifestyle Diversified Growth Fund option) or can choose from the "self-select" Freestyle fund range, which offers 9 separate funds covering the major asset classes and offering different risk profiles. The table below shows the percentage of members invested in each option:

Lifestyle Diversified Growth Fund (Default)	42%
Lifestyle Diversified Growth Fund (Selected)	4%
Lifestyle 100	8%
Lifestyle 80/20	11%
Lifestyle 60/40	2%
Freestyle	33%

After taking advice from its investment advisers, Willis Towers Watson, the Trustee added the Janus Henderson Sustainable Equity fund to the Freestyle fund range in May 2018. This option provides members with a sustainable and responsible investment option, incorporating environmental, social and corporate governance criteria into portfolio construction. Additionally, as Janus Henderson Investors decided to close the Janus Henderson Institutional Cash Fund, the Trustee replaced this fund with the L&G Sterling Liquidity Fund with effect from 11 January 2019.

The Trustee considers the DC investment strategy regularly, in conjunction with its investment adviser, to consider the appropriateness of the freestyle and lifestyle options, including some analysis of how this compares with other schemes. On average, trust based schemes provided by FTSE 350 companies offer 7 fund options in their freestyle range. These funds are predominantly passively managed. This compares to the 9 freestyle funds offered by the Scheme, which incorporate slightly more active management than the average scheme and give good coverage of the main asset classes. The advisers view is that the Schemes' Freestyle range is sufficient to cover the general risks faced by DC savers and satisfy the demands of the majority of members.

The adviser also discussed with the Trustee Board the concern that offering too much choice can reduce or inhibit the level of member engagement. Currently 36% of employees are in the default option, which is significantly lower than most schemes and suggests a good level of member engagement. This is no doubt partially due to the fact that some Janus Henderson employees are likely to be more comfortable in making investment decisions than the average but the Trustee Board also believes that offering an appropriate range and number of investment options is a contributory factor.

The Trustee also has to be mindful of the governance and compliance requirements of monitoring the DC options, in accordance with the Pension Regulators Code of Practice. Widening the investment options would significantly increase the Scheme's governance costs.

At this point, the Trustee Board continues to believe that the current freestyle fund choice is appropriate for the majority of the Scheme membership.

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Setting the investment strategy

Details of the investment strategy and investment objectives, including for the default arrangement, are recorded in a document called the Statement of Investment Principles, a copy of which is appended to this report.

The key points to note in relation to the default investment arrangement are as follows:

- The target retirement age is assumed to be 60 and members are assumed to be targeting annuity purchase.
- Members who are more than 10 years away from the target retirement age are invested mainly in funds aiming for long-term growth – 80% is invested in the Janus Henderson Diversified Growth Fund and 20% in the Janus Henderson Institutional UK Gilts Fund.
- During the 10 year period leading to target retirement age of 60, the investments are progressively switched on a quarterly basis at a predetermined rate. At 5 years from target retirement age, 100% will be invested in the Janus Henderson Institutional UK Gilts Fund. At target retirement age, 75% will still be invested in the gilts fund and the remaining 25% will be invested in the L&G Sterling Liquidity Fund.

The objective of the default arrangement is to optimise the potential for growth, and secure the expected or planned income for retiring members, whilst managing the different risks that apply at the various stages of a members' working life. The Trustee believes that the returns achieved are consistent with the objectives at an acceptable level of risk and at relatively low cost to members.

Reviewing the default investment arrangement

The Trustee regularly reviews the investment objectives and performance for the default arrangement, as well as considering the overall investment strategy, at least once a year. Since April 2015, members with defined contribution benefits have had much greater freedom and choice as to how they can take their benefits. In conjunction with our advisers, Willis Towers Watson, the Trustee has considered a number of industry statistics that indicate how this freedom is starting to shape retirement choice and behaviours. We have also been analysing the demographics and characteristics of the Scheme membership, such as the propensity of different groups of members to make investment choices and their tolerance to investment risk, as a predictor of their likely retirement behaviour. The Trustee monitors the use of the default investment arrangement and the choices being made by members when benefits come into payment, as well as considering the results of a survey with employee members of the Scheme who were within 10 years of retirement, which asked how they expect to take their benefits.

The Trustee did not make any changes to the default arrangement in 2018 but have now concluded their strategy review and anticipate announcing changes to the existing default and lifestyle strategies during 2019.

Charges paid by members in 2018

In this statement we are required to explain the charges which are paid by members. Although Janus Henderson meets the costs of running the Scheme, any charges made by the investment managers are met by members and are taken directly from your investments. The table below shows the charges and transaction currently applied to each fund, followed by a brief explanation of each charge:

Funds available to members	Annual Management Charge		Ongoing Charge	Transaction Costs
	Active members	Preserved members	All members	All members
Janus Henderson Institutional Global 50/50 Index Opportunities	0.000%	0.200%	0.060% to 0.100%	0.000%
Janus Henderson Institutional Cash	0.000%	0.150%	0.040%	0.000%
Janus Henderson Institutional UK Gilts	0.000%	0.250%	0.040%	0.002%
Janus Henderson Diversified Growth	0.000%	0.450%	0.400%	0.027%
Janus Henderson Global Sustainable Equity	0.000%	0.750%	0.060% to 0.090%	0.080%
L&G Global Equity (70:30) Index	0.160%	0.160%	0.020%	0.000%
L&G World Emerging Markets Equity	0.450%	0.450%	0.010%	0.030%
L&G Global Real Estate Equity Index	0.350%	0.350%	0.000%	0.020%
L&G AAA-AA-A Corporate Bond All Stocks Index	0.150%	0.150%	0.000%	-0.040%

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Annual Management Charge (AMC) – is the amount charged each year to cover the expected expenses of running the Scheme. To put this into context, if the AMC for a fund is 0.2% you are charged 20 pence a year for every £100 invested in that fund. For employees, the AMC on investments in Janus Henderson funds is met by Janus Henderson.

Ongoing Charge – these are recurring charges in addition to the AMC, which can include a general administration charges and fees payable to auditors, lawyers and custodians. The ongoing charge can vary from time to time and members can find the latest available figure on the Scheme website.

Transaction Costs – these are the costs associated with buying and selling investments in each fund.

As explained earlier in this statement, if you are invested in the default arrangement, the Lifestyle Diversified Growth Fund option, your account in 2018 was invested in one or more Janus Henderson funds depending on how close you are to the target retirement age. The charges and transaction costs gradually decrease as members get closer to their target retirement age. The tables below illustrate this by showing the charges at 3 different points in the lifestyle period, for both active members (which are current employees) and preserved members (which are ex-employees):

- (a) **More than 10 years from target retirement age** - invested 80% in the Janus Henderson Diversified Growth Fund and 20% in the Janus Henderson Institutional UK Gilts Fund:

	Annual Management Charge	Ongoing charge	Transaction costs
Active members	0.000%	0.328%	0.022%
Preserved members	0.410%	0.328%	0.022%

- (b) **5 years from target retirement age** - invested 100% in the Janus Henderson Institutional UK Gilts Fund:

	Annual Management Charge	Ongoing charge	Transaction costs
Active members	0.000%	0.040%	0.002%
Preserved members	0.250%	0.040%	0.002%

- (c) **At target retirement age** - invested 75% in the Janus Henderson Institutional UK Gilts Fund and 25% in the Janus Henderson Institutional Cash Fund:

	Annual Management Charge	Ongoing charge	Transaction costs
Active members	0.000%	0.040%	0.002%
Preserved members	0.225%	0.040%	0.002%

Monetary Illustration of the Impact of Costs and Charges

To help give a better understanding of the compounding effect of costs and charges, the tables that follow provide illustrations of the monetary impact on the value of member's benefits for both active and preserved members.

The tables give a summary of the projected fund and the impact of costs and charges up to a normal retirement age of 60. The figures are presented for three strawman members; the youngest member, the average member and a member approaching retirement. Additionally, the tables include the performance of the funds over different time periods depending on the age of the member.

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Employee Member Illustrations:

Example Member	Years	Lifestyle DGF		Global Real Estate Equity Index Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member (active)	1	£3,400	£3,400	£3,400	£3,400	£3,300	£3,300
	3	£8,300	£8,200	£8,200	£8,200	£7,800	£7,800
	5	£13,500	£13,400	£13,300	£13,200	£12,300	£12,300
	10	£27,700	£27,200	£27,100	£26,600	£23,200	£23,100
	15	£43,900	£42,700	£42,500	£41,300	£33,700	£33,600
	20	£62,400	£60,100	£59,700	£57,400	£43,800	£43,600
	25	£83,400	£79,500	£79,000	£75,100	£53,500	£53,200
	30	£107,400	£101,300	£100,500	£94,600	£62,800	£62,500
	35	£129,600	£121,400	£124,600	£115,900	£71,800	£71,400
	42	£137,000	£128,700	£151,400	£139,300	£80,500	£79,900
Average member (active)	1	£114,900	£114,500	£114,500	£114,100	£111,300	£111,300
	3	£143,900	£142,600	£142,400	£141,100	£131,700	£131,500
	5	£174,400	£171,900	£171,600	£169,000	£151,700	£151,500
	10	£253,100	£247,000	£250,500	£243,700	£200,600	£200,000
	15	£303,500	£296,500	£338,700	£325,600	£247,700	£246,600
	18	£329,600	£322,400	£396,500	£378,600	£275,100	£273,800
Approaching retirement (active)	1	£111,100	£111,100	£114,300	£113,900	£111,100	£111,100
	3	£129,100	£129,000	£139,800	£138,500	£129,100	£129,000
	5	£146,900	£146,700	£166,500	£163,900	£146,900	£146,700

Preserved Member Illustrations:

Example Member	Years	Lifestyle DGF		Global Real Estate Equity Index Fund		Cash Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member (preserved)	1	£13,300	£13,200	£13,300	£13,200	£12,900	£12,900
	3	£14,100	£13,800	£13,900	£13,700	£12,700	£12,600
	5	£14,800	£14,300	£14,500	£14,300	£12,500	£12,400
	10	£16,900	£15,700	£16,200	£15,700	£12,100	£11,800
	15	£19,200	£17,200	£18,200	£17,200	£11,600	£11,300
	20	£21,900	£18,900	£20,300	£18,900	£11,200	£10,800
	25	£25,000	£20,800	£22,700	£20,700	£10,800	£10,300
	30	£28,500	£22,800	£25,300	£22,700	£10,400	£9,800
	35	£31,200	£24,200	£28,300	£24,900	£10,000	£9,300
	38	£30,700	£23,600	£30,300	£26,400	£9,800	£9,100
Average member (preserved)	1	£46,200	£45,900	£46,000	£45,800	£44,700	£44,600
	3	£48,700	£47,600	£48,100	£47,600	£44,000	£43,700
	5	£51,300	£49,400	£50,300	£49,400	£43,300	£42,900
	10	£57,300	£53,300	£56,200	£54,200	£41,700	£40,900
	15	£56,300	£51,500	£62,800	£59,500	£40,200	£39,100
	18	£55,100	£50,000	£67,200	£62,900	£39,300	£38,000
Approaching retirement (preserved)	1	£60,500	£60,400	£62,400	£62,100	£60,500	£60,400
	3	£59,600	£59,100	£65,200	£64,500	£59,600	£59,300
	5	£58,700	£57,900	£68,200	£67,000	£58,700	£58,200

These illustrations should be read in conjunction with the following notes and assumptions:

1. Projected pension account values are shown in today's terms.
2. Contributions and costs/charges that are shown as a monetary amount reduction are paid halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before the application of investment returns.
5. Inflation is assumed to be 2.5% each year.

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6. Contributions are assumed from age 18 (for the youngest strawman member) to normal retirement age 60 and increase in line with assumed earnings inflation of 0% per year.
7. Values shown are estimates and are not guaranteed.
8. The real projected growth rates for each fund are as follow:
 - Lifestyle DGF: from -0.75% to 2.65%
(adjusted depending on term to retirement)
 - Global Real Estate Equity Index Fund: 2.25%
 - Cash Fund: -0.75%
9. 2018 transactions costs and other charges have been provided by Janus Henderson Investors and LGIM.
10. The Scheme's normal retirement age is 60.
11. Example members:
 - Youngest (active): age 18, total contribution: £2,310, starting fund value: £1,000
 - Average (active): age 42, total contribution: £11,100, starting fund value: £101,000
 - Approaching retirement (active): age 55, total contribution: £9,920, starting fund value: £102,000
 - Youngest (preserved): age 22, total contribution: nil, starting fund value: £13,000
 - Average (preserved): age 42, total contribution: nil, starting fund value: £45,000
 - Approaching retirement (preserved): age 55, total contribution: nil, starting fund value: £61,000

Good value for members

When considering whether the Scheme provides value for members the Trustee has a legal duty, under the Pension Regulators code of practice, to assess the value of the services and features that members are required to pay for. In addition to this legal requirement, the Trustee has also considered broader elements of the services offered to members, to take a view on the extent to which they provide added value to members and to see where those services might be improved.

The Trustee commissioned its advisers, Willis Towers Watson, to carry out an independent assessment and in their report, presented in March 2018, they concluded that, overall, the Scheme is offering good value to members for the following reasons:

- The charges that members pay are lower when compared to charges paid for similar investment strategies.
- The investment options are designed with the aim of maximising returns for members.
- A large range of additional services are provided across the areas of administration, communication and governance which members do not have to pay for but which add significant value.

In accordance with the recommendations of that report, the Trustee has taken a number of actions to further improve the value, such as concluding the investment strategy review, with changes expected to be implemented in 2019, and closer monitoring of the administration service, with performance now broken down by task.

The Trustee believes that the Scheme represents good value for members.

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The table below gives an overview of Willis Towers Watson’s findings;

Area	Rating	Rationale for rating
Value for members		
Charges	Excellent	<ul style="list-style-type: none"> Active members are able to access Janus Henderson funds at no cost Fees that members pay are below the average when compared to schemes of similar size and type
Investment	Good	<ul style="list-style-type: none"> Investment options are designed with the membership in mind and in a way to maximise outcomes. This includes 4 risk graded lifestyle strategies which all target an annuity outcome The Trustee has commenced a review of the strategy to examine whether member needs have changed as a result of the pension freedoms There is a wide range of self-select funds that have a large take up by the membership. Choice is offered between Janus Henderson funds and passive Legal & General funds.
Broader elements of Value		
Scheme governance and management	Good	<ul style="list-style-type: none"> The Scheme is non contributory with a competitive employer contribution The Trustee invests significant resource and time into the management of the Scheme including extensive monitoring of the service providers.
Administration	Good	<ul style="list-style-type: none"> SLAs over last 12-18 months are not out of line with those experienced across pension providers over the same period (eg average achievement of SLAs across all bundled pension providers was approximately 90%)
Communication	Good	<ul style="list-style-type: none"> The Scheme provides communications that are accurate, informative and timely. Support is available from the in-house pensions team including a telephone helpline and email inbox which goes direct to the in-house admin team. The Scheme communications focus on encouraging members to take actions to improve outcomes Scheme website has risk profiling and projection tools.

Core financial transactions

There are a number of core financial transactions that must be processed promptly and accurately, on behalf of members. These include:

- The receipt of all contributions to the Scheme
- The investment of those contributions
- Transferring assets between different investment options within the Scheme
- Making payments from the Scheme to, or on behalf of, members.

The Trustee must ensure that all important financial transactions are processed promptly and accurately. In practice we delegate this responsibility to the Scheme administrator, which is the in-house Pensions Team at Janus Henderson. We have a service level agreement in place with them which covers the accuracy and timeliness of the core financial transactions. The Pensions Team have a number of controls in place, such as four eyes checking on all investment and banking transactions, sign off from a Trustee Director for any payments exceeding £150,000 and regular reconciliation of the Trustee bank account. The Pensions Team provide quarterly reports to the Trustee Board, as well as a more detailed annual administration report, which allow the Trustee to monitor performance against the service level agreement and assess how quickly and effectively the core Scheme financial transactions are completed.

I am pleased to be able to confirm that in the last Scheme year there have been no material administration service issues which need to be reported here by the Trustee. We are satisfied that the Scheme’s administrator has robust systems and capability to process financial transactions promptly and accurately and in line with agreed service levels.

Trustee knowledge and understanding

The law requires the Trustee Board to possess, or have access to, sufficient knowledge and understanding to run the Scheme effectively. We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Board. Each Trustee Director also undertakes an annual self-assessment of their knowledge against the Pension Regulator’s curriculum to identify any gaps in their knowledge and understanding. This allows us to work with our professional advisers to fill in any gaps.

All of the Trustee Directors have completed the Pension Regulators Trustee Toolkit and newly appointed Trustee Directors are expected to complete the Trustee Toolkit and have formal induction training within 6 months of joining the Board.

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The Trustee receives advice and regular briefings from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance and when selecting new advisers. The trustee maintains a schedule for regular reviews of all advisers and service providers but also undertakes out of cycle reviews if necessary

As a result of the training completed by the Trustee, individually and collectively as a Board, and taking into account the experience of my fellow Trustee Directors and the professional advice available to the Trustees, I am confident that the combined knowledge and understanding of the Board enables us to exercise properly our functions as Trustee of the Scheme.

This Statement was approved by the Trustee on 20 May 2019 and signed on their behalf by:



M G Clare
Chairman