DC Governance Statement

Chair's DC Review – 6 April 2020 to 5 April 2021

Introduction

Governance rules apply to defined contribution pension arrangements like the Bayerische Landesbank Retirement and Death Benefits Plan (the "Scheme") from 6 April 2015. These were designed to help members achieve a good outcome from their pension savings.

As the Chair of the Trustees, I have to provide you with a yearly statement which explains what steps have been taken by the trustee board, with help from our professional advisers, to meet the governance standards. The law sets out what information has to be included in my statement and this is covered in sections below.

The Trustees are committed to having high governance standards and all the meet regularly to monitor the controls and processes in place in connection with the Scheme's investments and administration.

I welcome this opportunity to explain what the Trustees do to help to ensure the Scheme is run as effectively as it can be. If you have any questions about anything that is set out below, or any suggestions about what can be improved, please do contact myself.

The report will cover the following areas:

1) Default investment strategy.
2) Summary of the membership, ages, asset values and available funds.
3) Benchmarking of fund performance, combined with risk metrics to support the assertion that funds are performing within the mandate.
4) Analysis of charges for the default fund, and any other funds.
5) Governance of the funds, and legal protections.
6) Life styling commentary.

The report sets out the existing strategy and highlights the risks in light of new flexibilities allowed as a result of the changes to the pension rules. To date the Trustees have decided to retain a life-styling strategy assuming the members will be purchasing an annuity in retirement on the grounds if members wanted to consider the alternatives, they would seek independent financial advice.

The Statement of Investment Principles (SIP) is a written statement with governing decisions about investments - the SIP for covering the DC scheme is set out in Appendix A and includes the investment strategy, objectives and default arrangements.

Default investment arrangement

The default investment arrangement is provided for members who join the Scheme and do not choose an investment option for their contributions. 85% of the members by value are subject to the default investment strategy. The Scheme is closed to new contributions.

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DC Governance Statement

Setting an appropriate investment strategy

The Trustees are responsible for investment governance. This includes setting and monitoring the investment strategy for the Scheme's default arrangement.

We have chosen L&G Cash, L&G Pre-Retirement and L&G Global Fixed Weight 60:40 funds as the Scheme's default arrangement. Details of the investment strategy and investment objectives of the default arrangement are recorded in a document called the Statement of Investment Principles. This document is included as an appendix to the Annual Report and Accounts.

In summary, the key points to note in relation to the default investment arrangement are that the L&G Global Equity 60:40 Fixed Weights fund is the fund designed to give the members growth until they approach retirement. The fund has been selected to secure a broad range of equities in the UK and overseas. 40% of the capital is allocated to equities quoted outside the UK, and consequently the members are exposed to a modest currency risk. The fund is a passive fund which is designed to reduce the costs to the members, and so maximise the potential returns to retirement.

Equities are expected to secure returns over inflation over the long term, but there are number of risks associated with investment with equities, market risks, interest rate risks, inflation risks, counter-party risks, liquidity risks.

On the five years until the retirement age for the Scheme, there is a lifestyle option where 20% of the units of the equity fund are switched into the Pre-Retirement and Cash funds, split 75/25. The allocation to the Cash fund assumes that the member will be taking 25% of their then pension pot as cash as a lump sum. The risks for the Cash fund are interest rate risks, credit risks, default risks, inflation risks and liquidity risks.

The 75% allocation to the Pre-Retirement fund is designed mirror the movements in the annuity rates, and as the membership will be buying an annuity on retirement to provide an income for their lives and those of their dependents. The risks for the Pre-Retirement fund are interest rate risks, inflation risks, credit risks, default risks, manager risks, market risks and liquidity risks.

The Trustees have delegated their Environmental, Social and Governance risks to the fund manager, and the expectation is that the fund manager, is an active investor, and will vote on all governance decisions. The fund manager, L&G, are activist investors and will engage in companies, whether they lend money to them or they hold shares or bonds.

Reviewing the default investment arrangement

The Trustees continue to engage with the employer on the future for the DC scheme and assessing whether the existing arrangement will be maintained for the long term.

If the DC scheme is to remain in place, we will consider offering members three lifestyle tracks, depending on whether they will take all the pension pot entirely as cash early in their retirement, or will buy an annuity and secure a lump sum or adopt a Flexi Retirement, where money will be drawn down as and how the members require, once the employer has decided on the future of the DC scheme.

The Trustees will review the investment strategy and objectives of the default investment arrangements at regular intervals, and at least once every 3 years, taking into account the needs of the Scheme membership when designing the default arrangement.

The Trustees are continuing to monitor the use of the default investment arrangement and the choices being made by members when benefits come into payment. This will help to inform us about changes which are appropriate in future.

DC Governance Statement

Metrics for the Scheme

There are 38 members of the Scheme, and over the last year two members have taken their benefits from the Scheme. The tables below set out the profile of the member's pension pots, their sizes and the allocation between the three current default funds.

The profile of the members is as below:

Ages	*Number of Members*	*Value - £*		
		Global Equity	*Pre Retirement*	*Cash*
25-35	2	42,504	0	0
36-40	7	190,223	9,202	0
41-45	9	222,475	9,430	1,152
46-50	7	363,179	0	41,130
51-55	8	459,831	0	3,546
56-65	5	146,869	18,028	5,886
Totals	**38**	**1,425,082**	**36,660**	**51,714**

The range in the size of each pot varies considerably, as illustrated in the table below:

Ages	*Average Pot*	*Largest Pot*	*Smallest Pot*
25-35	21,252	22,021	20,482
36-40	28,489	53,838	4,977
41-45	25,895	52,302	3,797
46-50	57,758	206,801	1,397
51-55	57,922	116,262	2,897
56-60	34,157	71,324	1,740

The details of the three funds are set out later in the report.

Overall, the pension pots are modest, but the charges for the funds (discussed later in the report) are very competitive considering the size of each pot, something to bear in mind when the members are looking at transferring the assets away.

The mean age of the Scheme is 48 and the weighted average for the Scheme is 48.9 years, which means that the average length of time between the date of the report and the retirement age is about 12 years.

It is noted that 86% of the members by value have elected to have Life styling.

DC Governance Statement

Benchmarking of the assets

There are four Legal & General Investment Management funds as the Scheme's default arrangements as below:

- Global Equity 60:40 Fixed Weights
- Dynamic Diversified
- Pre Retirement
- Cash

Over the year the Trustees have added a Diversified Growth Fund, DGF fund, to the available fund list which would allow the members to reduce the risk profile of their pension pots at any age before retirement. The selected DGF fund is the L&G Dynamic Diversified Fund. The fund is not included in the Lifestyle programme.

The performance of the funds and their risk metrics are covered below.

Global Equity 60:40 Fixed Weights

The fund is constructed to perform in line with the benchmark index with a 60% allocation to the FTSE All Share Index, and a 14% allocation to the FTSE North America, 14% to FTSE Europe ex UK, 7% to FTSE Japan and 5% to FTSE Asia Pacific ex Japan 5%, unhedged.

The relative risks are negligible, as the tracking error for the fund is low. The chart below shows the performance over the year for the 10 year period to the 31st March 2021.

The variance in the performance of the fund and the benchmark is down to the fact that the LGIM fund is priced in the middle of the day and the benchmark index will use end of day data. Secondly there is the impact of the charges over the period.

DC Governance Statement

Benchmarking of the assets (continued)

The absolute risks of the fund are high, as measured by its volatility, relative to all the available funds. Over the last five years the members have been rewarded for the risks, as illustrated in the table below.

	1 year	3 years	5 years	Volatility
LGIM Global Equity 60:40 Fixed	+31.29%	+6.57% p.a.	+9.31% p.a.	14.27
Composite Benchmark	31.35%	+6.65% p.a.	+9.36% p.a.	14.58

Source: LGIM and Financial Express. The performance, net of charges, and volatility are for the period 31 March 2011 to 31 March 2021.

We continue to believe the fund is appropriate for long term investors, but there is recognition that the risk profile of the fund is moderate, assuming the time frame is more than 10 years. The average of age of the membership holding the global equity fund is 47.0 years, and the weighted average age reflecting the fund holdings is 48.7.

Dynamic Diversified Fund

The Dynamic Diversified fund is a dynamic growth fund, DGF, which is designed to deliver absolute returns, and the benchmark for the fund is the Bank of England Base Rate plus 4.5% per annum over a full stock market cycle. There is a secondary benchmark, in relation to volatility, and therefore returns, is 2/3rds of a composite equity benchmark, made up of 50% the FTSE World Equity Index and 50% the FTSE World Equity Index, GBP hedged.

The actual returns since the inception of the fund, the return profile has been as below:

The fund has outperformed its prime benchmark, but struggled against the composite equity benchmark. However when you analyse the volatility of the composite equity bencmark and the volatility of the Dynamic Diversified fund the returns are roughly in line with expectations, and look at the risk adjusted returns, they are more comparable.

DC Governance Statement

Dynamic Diversified Fund (continued)

The actual returns over the period are as below: -

	1 year	3 years	5 years	Volatility
LGIM Dynamic Diversified	18.08%	5.87% p.a.	6.78% p.a.	8.59
Bank of England Base +4.5% p.a.	4.60%	5.01% p.a.	4.94% p.a.	0.00
Composite Equity Benchmark	44.12%	12.99% p.a.	13.93% p.a.	14.83

Source: LGIM and Financial Express. The volatility for the period 31 May 2014 to 31 March 2021 is net of expenses.

In summary the fund continues to perform satisfactorily.

Pre Retirement Fund

The Pre Retirement fund is specifically designed to match the value of the assets with the cost of an annuity. The idea is that they mirror each other, so the member notionally fixes the annuity rate when the fund is purchased. Unfortunately the fund does not offer a perfect match for reasons set out below.

The underlying assets are split between long dated government bonds and corporate bonds. The allocation to the bonds at the discretion of the fund manager. The benchmark for the fund is the FTSE Actuaries Over 15 year gilts and iBoxx Non Gilt (ex BBB) > 15 years index.

The actual returns over the period are as below: -

	1 year	3 years	5 years
LGIM Pre Retirement	2.40%	4.27% p.a.	5.10% p.a.
L&G Composite Benchmark	2.92%	4.42% p.a.	5.21% p.a.

Source: LGIM and Financial Express. The volatility for the period 31 March 2013 to 31 March 2020 is net of expenses.

Please note that the volatility of the fund is slightly higher than its benchmark, but versus the cost of the annuity in theory would have been low.

While the fund has performed well against the benchmark, once you take into account the slightly enhanced volatility, the risk adjusted returns are slightly inferior, Sharpe Ratio of 0.54 versus 0.58, assuming a risk free rate of return of 0.75.

Annuity rates are not only driven by movements in the bond yields. Other factors include mortality rates and the market in Interest rate and inflation rate SWAPs. Over the period the L&G Pre Retirement fund performed within reasonable limits versus its benchmark index. Assessing how it performed versus annuity rates is more challenging in the DC market.

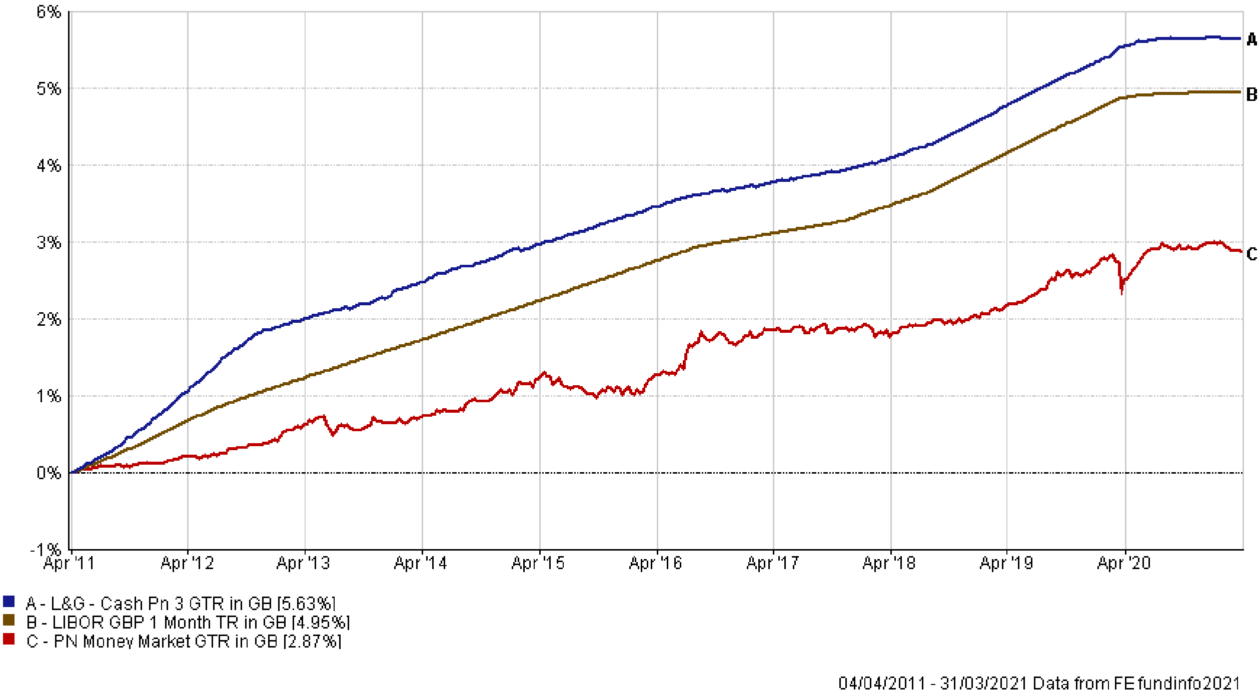
One of the largest annuity providers is Legal and General. The data during the short lives of these buy out aware funds is one of being variable against the Pre Retirement fund held by the Scheme. Therefore, it is too early to assess how effective the Pre Retirement fund is. The supposition is that these providers will create products comparable to the buy out funds for the DC market, in time.

DC Governance Statement

Cash

The role of the fund is to provide members, 5 members, with a cash fund to provide security over the value of the capital, plus interest, what there is of it at the moment.

The fund is benchmarked against its peers, rather than an interbank rate, such as LIBOR and LIBID. The performance of the fund versus its peer group and the benchmark, net of costs, is within acceptable limits.



The fund continues to perform in line with expectations and ahead of the market, before taking into account the fund charges.

Summary

The funds continue to perform in line with expectations, 94.1% of the Scheme's assets are invested in the L&G Investment Management Global Equity 60:40 fund. 36 members of the Scheme out of the 38 members hold units in the fund, and we remain happy with its relative record.

Investment Charges

The employer pays the administration costs of the Scheme.

The only charges are those levied by Legal & General Investment Management within the funds. There are the initial charges and the ongoing investment management charges levied on the funds.

In the case of the initial charges the funds have a bid and offer prices, but Legal & General will match all the trades every day. Therefore investors may not suffer the full bid offer spread on the sale and purchase of the units. The spread will vary from day to day due to market conditions.

Over the course of the year, there were a number of transactions for all the funds.

DC Governance Statement

Investment Charges (continued)

The table summarises the number of transactions, the values of the units bought and sold, plus the differentials between the mid price of the funds and the dealing prices the trades were completed at.

Fund	Units Transacted	Total Value (£)	Mid to Dealing Spread (£)	% differential
Sales				
Cash	0	0	0	
Pre-Retirement	0	0	0	
Global Equity	20,375.21	63,801.10	-31.20	0.05%
Total		**£63,801.10**	**-31.20**	
Purchases				
Cash	426.65	2,745.00	0.00	0.00%
Pre-Retirement	3,084.24	9,070.20	-3.79	0.04%
Global Equity	0	0	0	
Total		**£11,815.20**	**-3.79**	

The members made a notional loss as a result of the purchases and sales over the year of £34.99. Most of the loss arose from the sale of the equity funds, but there are no records of the dealing prices when the units were purchased, i.e. whether they were at the bid, mid or offer prices. In the light of the amounts the Trustees do not believe that it is necessary to calculate whether the loss was less as the amounts are relatively immaterial.

The annual charges are as below:

Funds	Ongoing Fund Charges
Global Equity 60:40 Index Tracker	0.19%
Pre-Retirement	0.15%
Cash	0.125%
Dynamic Diversified	0.59%

These charges are competitive versus their peers, indeed Legal & General are deemed to be one of lowest cost providers to the market.

The actual annual charges reflect the total annual investment costs of the selected funds, based upon the values of the funds as of the 31 March 2021. The total sums received by L&G is £2,827 per annum.

Governance

All the assets are held in a Pooled Fund range, insured with Legal & General Life Assurance (Pensions Management) Limited. The pooled funds are audited annually, which confirms that the unit prices for the funds are correct and reflects the value of the underlying assets.

We believe that the governance of the Pooled funds is sound and there are no issues for the Trustees.

The Plan administrator provides regular reports to the Trustee board on the transactions completed on behalf of the Trustees. Any mistakes or delays are investigated thoroughly and action is taken to put things right as quickly as possible. All the unit transactions, switches and sales, have been completed in line with the Life Styling arrangements.

DC Governance Statement

Governance (continued)

Capita produce quarterly Administration Reports for the Plan, of which the DC section is reviewed by the Trustees.

Capita has standard SLAs for each task that we deal regarding Investment Administration and the standard SLAs for these are as follows:

a. Reconciliation of contributions: 5 days. Although there are no contributions payable for the Plan we run monthly Lifestyle switch instructions on or around 10th each of each month;

b. Purchase and sale of units (to include Switches and redirection) (on completion of (a)*: 5 days

c. Allocation of Units (on completion of a. and b.): 5 days

*This is subject to the receipt of monies and the Fund Managers own dealing dates.

Good value for members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which the investments options and the benefits offered by the Scheme represent good value for members when this is compared to other options available in the market.

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

The maximum charges for Work Place pension is 0.75% per annum for Defined Contribution pension schemes, and the charges are substantially less than these. The average charges for many DC schemes are now between 0.4% and 0.5% per annum. On the grounds that the employer meets are all administration costs, the actual charges for the members, at below 0.2% per annum represents good value for money.

The low charges also reflect the simplicity of the funds on offer through the Lifestyling route. On balance the charges offer “good value”, but if there is a change in the funds employed, this assessment will be subject to review in future reports.

Trustees' Knowledge and Understanding

The Trustees continue to have a working and practical knowledge of the trust deed of the Scheme and its rules. Over the year the Statement of Investment principles has been reviewed and a new one has been put in place.

The Trustees undertake to review all aspects of the pension scheme using the development tools available on the Pension Regulator's web site. The review highlights short comings in the areas of knowledge and each trustee undertakes to complete training course and to attend seminars to complete their knowledge.

In my opinion the Trustees have discharged their responsibilities to develop their knowledge and understanding so they operate as an effective team of Trustees.

Life Style Summary

The implementation of the Life Style trategy continued for the whole year, with monthly switches.

Reviewing the Investment arrangements

The Trustees review the investment objectives and the performance of the default arrangements regularly and on the advice of Smith & Williamson Financial Services, the Scheme's investment advisers.

DC Governance Statement

Reviewing the Investment arrangements (continued)

The issues in relation to the Life Styling Options has been the introduction of the new regime around retirement planning and the choices open to members. The industry assumes that most members will take the lump sum from their pension arrangements up to the maximum, as the lump sum is currently paid free of tax. Evidence from the industry suggests that this will continue unless the tax rules change. Therefore targeting the allocation of 25% of the pension fund into Cash, despite the zero interest rates, on the run up to retirement age continues to be appropriate.

The other element of the lifestyling programme is the allocation of up to 75% of the funds to the Pre Retirement Fund, which as explained above is designed to shadow the cost of buying an annuity. The working assumption is that individuals would use the 75% of the funds to purchase of an annuity.

Unfortunately, in the wider market, more practitioners are experiencing a large number of members who are deciding on taking their pension pots soon after their retirement ages as cash irrespective of the tax implications or the impact on their long term financial security. There is insufficient data to assess how individuals will change their behaviour towards annuities for this Scheme.

It is noted that the average pot for those members over the age of 50 is £58,000 for this Scheme. On the grounds the members of the Scheme are working in the financial services industry for most of their careers, then the assumption is that the £58,000 is only a small part of their overall savings for retirement. Consequently, there is an increased chance the members may take their pension pot as cash. On the other hand the members are more inclined to seek comprehensive financial advice and are less inclined to make unwise decisions, especially around taking too much cash out of their pension savings too early.

In light of the increased number of options at retirement, and the membership having very different circumstances, the Trustees should be encouraging the members understand the importance of securing independent advice on making the right choices for their circumstances well before the retirement ages. And retain the current life style route, but yet offer potential funds which could allow the members to implement alternative strategies should then choose to do so.

Summary

In summary I believe that the funds are appropriate for the Scheme with the age profile of the membership. The funds employed by the Trustees continue to perform in line with expectations. The transactions were completed in line with expectations. I am happy with the administration of the DC Scheme.

There are issues around the fund options under Life Styling, and there is a strong case for an overhaul with the introduction of three life styling options for members looking to take cash early into retirement, an annuity purchase or the Flexible Retirement. However there are risks around that decision.

We would not recommend any changes at the moment, unless there is a change in the time frame for the transfer of the DC assets in the Scheme.

Michael Chatterton **September 2021**

Chair of the Trustee for the Plan

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