

## ExxonMobil Pension Plan - The Chair's Annual DC Governance Statement

**NOTE: THIS COMPLIANCE STATEMENT RELATES SOLELY TO THE PLAN'S MONEY PURCHASE BENEFITS (SUCH AS ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS) AND OTHER MONEY PURCHASE BENEFITS). THIS STATEMENT IS NOT RELEVANT TO ANY MEMBER'S DEFINED BENEFIT PENSION.**

This Statement has been prepared by the Trustee of the ExxonMobil Pension Plan (the 'Plan') to demonstrate how the Plan has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015. This Statement relates to the period from 1 January 2018 to 31 December 2018.

It is generally the case that Defined Benefit (DB) schemes with only money purchase Additional Voluntary Contribution (AVC) arrangements are excluded from the above regulations. However, the Plan holds a small element of non-AVC money purchase benefits, most of which arise from historical transfers-in from non-AVC arrangements, and therefore the governance standards will apply to all money purchase assets in the Plan.

### Investment strategy and monitoring

The Trustee's objective is to provide its members with a range of suitable funds from which they can construct their own portfolio. An extract of the Plan's Statement of Funding and Investment Principles is enclosed (see Appendix A) which specifically covers the money purchase benefits.

The current AVC arrangement offers members the opportunity to select their own investments across a range of asset classes; members' investments are not automatically invested in a default strategy. However, following the introduction of The Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Plan's six self-select funds with Aegon (previously BlackRock) are considered to be default arrangements as a result of an investment transition which took place in 2010 in which some members' AVCs were moved automatically to these funds when they did not express an alternative choice. In 2014, further AVCs were mapped to the Mixed Asset Retirement Transition strategy, a lifestyle strategy that aligns with taking a cash lump sum at retirement.

The Plan holds a number of legacy (or acquired) investment policies with Standard Life, Equitable Life and Prudential. Within these policies there are a number of historical default funds, for which further details (including the aims of the funds) are provided in Appendix A of this Statement. The historical default funds are:

- A Standard Life Retirement Account policy comprising two sub-funds; the Standard Life Pension With-Profits Fund and the Standard Life Pension Millennium With-Profits Fund.
- An Equitable Life policy holding non-AVC money purchase benefits which are invested in the Equitable Life With-Profits Fund.

These policies are closed to new contributions.

The performance of the Plan's Aegon investment fund range is reviewed quarterly, although in Q3 and Q4 2018 following the transfer from BlackRock to Aegon in July 2018, there were slight delays receiving performance reporting. In addition, Aegon identified some pricing errors which are currently in the process of being corrected. The performance of the AVC arrangements for the Statement period has been in line with the objectives of the funds. The legacy and acquired AVC provider funds' performance is monitored annually as part of a wider general review of all the Plan's AVC arrangements. The Trustee annually reviews performance of the with-profits funds with Standard Life, Equitable Life and Prudential in line with the annual bonus declarations and overall provider reviews.

An investment strategy review is underway and will be completed in Q3 2019.

## Financial transactions

The Trustee has in place Service Level Agreements (SLAs) with the Plan Administrator which cover the timescales of all administration tasks (DB and AVC) including all core financial transactions. These core financial transactions include the investment of contributions, transfers into and out of the Plan, fund switches and payments out of the Plan to and in respect of members.

The Plan Administrator carries out monthly monitoring, reconciliation and record keeping of AVC contributions, investments and payments from the Plan. All discrepancies are investigated and reconciled. The Plan's accounts are also independently audited annually by the Trustee's appointed auditors. The Trustee monitors the receipt and investment of AVCs in the quarterly report. All monthly AVC contributions over the period were invested in line with the agreed SLAs.

The Plan Administrator follows an agreed administration manual and has a checking/authorisation process in place for all financial transactions.

The Trustee monitors performance against the SLAs via the quarterly reports it receives from the Plan Administrator. During the reporting period the Trustee was aware of instances where some core financial transactions were not processed within the desired SLA timescales. The Trustee worked closely with the Administrator to improve the performance against the SLAs. This has included scheduled weekly meetings to discuss and report performance and progress against an agreed recovery plan.

The Aegon pricing error, reported above, has been rectified for those members who remain invested in the fund and a rectification exercise for those who have since disinvested from the fund is underway. The final total loss across all members is expected to be less than £5,000. The Trustee's advisers and Esso Treasury team continue to monitor Aegon operations.

## Charges and transaction costs

Fund charges paid by the members are set out below:

Fund name	Total Expense Ratio (TER)	Transaction costs as at 31 December 2018
<i>Funds open to future contributions</i>		
Aegon BlackRock (Aquila Life) Mixed Asset	0.26% *	0.0447%
Aegon BlackRock (Aquila Life) (40:60) Global Equity	0.26% *	0.0419%
Aegon BlackRock (Aquila Life) Cash	0.28% *	0.0167%
Aegon BlackRock (Aquila Life) UK Equity Index	0.26% *	0.0455%
Aegon BlackRock (Aquila Life) Over 15 Year UK Gilt	0.26% *	-0.0265% ***
Aegon BlackRock (Aquila Life) Corporate Bond	0.27% *	0.0483%
Mixed Asset Retirement Transition Strategy	0.26% - 0.28% *	0.0167% – 0.0447%
Global Equity Retirement Transition Strategy	0.26% - 0.28% *	0.0167% – 0.0419%
UK Equity Retirement Transition Strategy	0.26% - 0.28% *	0.0167% – 0.0455%
<i>Funds closed to future contributions</i>		
Equitable Life Property	1.00%	0.3700%
Standard Life Property	1.03%	0.0017%
Prudential Property	1.69%	not known (see below)
Equitable Life With Profits	1.00%	0.0300%
Standard Life Millennium With Profits	See ** below	0.0012%
Standard Life Millennium With Profits 2006		0.0012%
Standard Life With Profits		0.0006%
Prudential With Profits		not known (see below)

\* The Aegon investment funds benefit from highly competitive charges negotiated by the Trustee. The TER includes the investment manager fees and operational costs incurred for the benefit of members (such as administration). These charges are clearly disclosed to members throughout all relevant documentation.

\*\* In relation to the Plan's legacy investment policies with Equitable Life, Standard Life and Prudential, due to their nature, the charging structures for the with-profits policies are opaque with costs incorporated into declared bonus rates. The Trustee took account of this (based on publicly available information) when it considered the ongoing suitability of these investments.

\*\*\* Negative costs are a feature of price movements in a fund as members trade in and out of the fund, and are not a reflection of explicit costs paid by members. Because of this, it is not expected that transaction costs for the affected fund(s) will always be negative.

Transaction costs are those incurred by fund managers as a result of buying, selling, lending or borrowing investments.

The Trustee has asked its providers and fund managers for the transaction cost disclosures they are able to provide. Aegon and Standard Life have provided transaction costs incurred by members at a fund level and Equitable Life has published publicly available data on its website. All these details have been included in the table above. Prudential has been unable to provide the required data in time for this Statement, as it has not received all necessary information from the fund managers of the underlying funds. Prudential cites the reason for the fund manager delays as an outstanding need for new system and process developments to provide the new information. We expect Prudential and its fund managers to be able to provide the transaction cost data for next reporting period.

### **Costs and charges illustration**

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 requires the Trustee to produce an illustration showing the compounding effect of costs and charges on DC funds. As a result, the Trustee has set out an illustration in Appendix B, which shows the projected values based on three example AVC members (these are not actual members). The three examples show members at different ages, with different average pension savings and investing in a range of different investment options. The projections compare what the investments could grow to at age 65 before and after charges have been deducted.

The illustration has been prepared by Willis Towers Watson, who confirmed that they had regard to the statutory guidance when preparing the illustration.

### **Value assessment**

In accordance with regulation 25(1)(b) of The Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustee annually assesses the extent to which the charges and transaction costs for the funds available through Aegon represent good value for members. The latest assessment was undertaken in April 2019.

Within the independent assessment, the Trustee has considered the value for members of the five key areas of Charges, Scheme Governance and Management, Investment, Administration and Communication. Within each section we have considered:

- **Need** – the Trustee considered the need of the service from members. This covers both the appropriateness of the service for the membership as well as the actual and perceived value members gain.
- **Performance** – the Trustee considered the quality of the service to meet the need. This looks at the current service provided, the performance of the service provider and how well this meets the needs of the membership.

These two areas offer a view of the overall value that the AVC arrangements provide, based on the Plan and its membership. We have considered both the legal requirement to assess the value of services where the cost is met by the member and where value is added through services where the cost is met by the Trustee and sponsor companies.

The Trustee continues to consider the charges and costs represent good value for members. The independent assessment determined that the charges for the funds available through Aegon are considerably lower than those obtained by other similar pension plans. There is a closely monitored passive fund range in place, including three lifestyle strategies. Members predominantly use their money purchase (AVC) benefits to fund their tax free cash, leaving more of the valuable main Plan benefits to be used towards a pension. Members who have money purchase benefits (including AVCs) receive communications and access to online tools explaining the funds and member choices.

The Trustee also assesses the value to members of the legacy funds. It recognises that some members may value their investment options with the legacy providers. For example some of the legacy funds contain guarantees and there may not be a direct alternative fund in the Aegon range. As such, each member invested in the legacy funds will need to consider whether they wish to keep

their money invested in the funds or switch them to the Aegon investment options.

### **Trustee's Knowledge and Understanding (TKU)**

The Trustee has a robust TKU structure in place which enables it, together with the support of its professional advisors, to ensure it has sufficient knowledge to effectively discharge its duties and responsibilities under the Plan. Generally, the Trustee has a good working knowledge of the documents governing the Plan, (including the Trust Deed and Rules, the Statement of Funding and Investment Principles, and all documents which set out current policies). The Trustee takes advice from professional advisers when it is appropriate to do so.

The existing Trustee Directors are generally long standing and have worked together for a number of years and as such have learnt to operate in a way which plays to each director's strengths and area of expertise. The existing Directors have completed The Pensions Regulator's Trustee Toolkit.

There were two new Trustee Director appointments within the reporting period, both of whom have completed the Trustee Toolkit made available by The Pensions Regulator.

The Trustee's approach to meeting the TKU requirements, and ensuring they retain good working knowledge of the Plan documents, include:

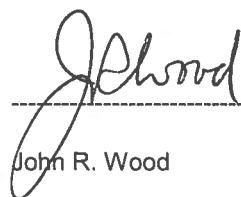
- Maintaining a rolling programme of bespoke Trustee training which is delivered during a designated training day and within Trustee meetings where appropriate (depending upon its urgency).
- Recording all training and attendance at appropriate seminars in the Trustee training log.
- Reviewing the training programme annually.
- An online site for Trustees to access the latest Plan documents.
- The Trustee working with the Pensions Manager to establish any gaps in knowledge, which can then be addressed within the training programme.

At the September 2018 training day, the Trustee covered a GDPR overview, cyber security and member options, which while aimed to cover the Plan as a whole (i.e. primarily relating to defined benefits), has relevance to AVCs.

### **Statement of compliance**

On behalf of the Trustee of the ExxonMobil Pension Plan, I confirm that the Trustee is comfortable that the Plan has met the minimum governance standards (in relation to money purchase assets) as defined in The Occupational Pension Scheme (Charges and Governance) Regulations 2015 during the period 1 January 2018 to 31 December 2018.

Signed on behalf of the Trustee



John R. Wood

Chair of the Trustee

## Appendix A – Additional Voluntary Contribution section from the Plan’s Statement of Funding and Investment Principles

The Trustee currently offers the following range of funds through Aegon (Scottish Equitable) who replaced BlackRock as the AVC provider in July 2018:

Asset class	Name of fund	Benchmark
Mixed Assets	Aegon BlackRock Aquila Life Mixed Asset (BLK)	75% Global Equities, 25% iBoxx £ Non Gilts Index
Global Equity	Aegon BlackRock 40/60 Global Equity Index (BLK)	60% FTSE All World Developed ex-UK, 40% FTSE All Share
Cash	Aegon BlackRock Cash (BLK)	GBP 7 Day LIBID
UK Equity	Aegon BlackRock Aquila Life UK Equity (BLK)	FTSE All Share Index
Gilts	Aegon BlackRock Aquila Life Over 15 Years UK Gilt (BLK)	FTSE UK Gilts Over 15 Years Index
Bond	Aegon BlackRock Aquila Life Corporate Bond Index Fund All stocks (BLK)	iBoxx £ Non Gilts Index

The objective of these options is to provide members with suitable funds from which they can construct their own portfolio. The funds’ objectives and expected returns are as follows:

- Aegon BlackRock Aquila Life Mixed Asset Fund: Invests approximately 75% in equities both in the UK and developed overseas, and 25% in investment grade corporate bonds denominated in sterling. The Fund aims to provide returns consistent with the markets in which it invests.
- Aegon BlackRock 40/60 Global Equity Index Fund: Invests primarily in UK and overseas equities and aims to produce a return in line with its benchmark. Approximately 40% of the Fund is invested in shares of UK companies and the remaining 60% is split between shares of companies in the US, Europe ex-UK and the Pacific Rim. The Fund aims to provide a return consistent with its benchmark.
- Aegon BlackRock Cash Fund: Aims to achieve an investment return that is in line with wholesale money market short-term interest rates. Specifically, the Fund is benchmarked against 7 Day Sterling LIBID. The underlying investments of the Fund are a diversified portfolio of money market instruments. The instruments are of a high quality and have a minimum credit rating of A1 or an equivalent standing.
- Aegon BlackRock Aquila Life UK Equity Fund: Invests in the shares of UK companies and aims to achieve a return that is consistent with its benchmark.
- Aegon BlackRock Aquila Life Over 15 Years UK Gilt Fund: Invests in UK government fixed income securities (gilts) that have a maturity period of 15 years or longer. The Fund aims to achieve a return consistent with its benchmark.
- Aegon BlackRock Aquila Life Corporate Bond Index Fund: Invests in investment grade corporate bonds denominated in sterling. The Fund aims to achieve a return consistent with its benchmark.

Due to previous investment mapping exercises, members within the main AVC arrangement of the Plan have been mapped into the above investment options. Therefore, these funds are considered by legislation as scheme defaults.

### Retirement Transition arrangements

The Retirement Transition phase is split into three different sections, varying on the chosen starting point fund. Members are able to choose either:

- 100% Mixed Asset Retirement Transition (this has been used as a default fund in previous investment mapping exercises)
- 100% Global Equities Retirement Transition
- 100% UK Equities Retirement Transition

All funds provide the possibility of long-term growth while a member is further away from their selected retirement age. The Retirement Transition will then gradually move the funds into the Cash Fund. This will continue until the member has 100% of their investment in the Cash Fund by retirement. This aims to produce good returns in the long term, although capital values may be volatile in the short term.

### **Historical arrangements**

There are also members invested in With-Profit funds, Property funds and other funds with various different providers which are closed to additional contributions.

In addition to these, the Plan holds some closed money purchase arrangements which include non-AVC benefits. Within these, there are a small number of historical default funds:

- Standard Life With-Profits Fund
- Standard Life Pension Millennium With-Profits Fund
- Equitable Life With-profits Fund

With-profits investments aim to general capital growth over the medium to long term, with stability against market volatility over the short term. Money is invested in pooled assets and the returns are not based on precise level of stocks held on the date of buying or selling. By smoothing through market movements, returns may be higher or lower than actual underlying asset performance. Guarantees or financial adjustments may apply and the levels are determined on a member-by-member basis.

The Trustee believes that the Plan's identified default arrangements are suitably designed, and it continues to monitor them through the investment policies outlined in this document to ensure that assets are invested in the best interests of the Plan's members and any potential beneficiaries.

## Appendix B - Illustration of the effect of costs and charges on a member's AVC pension pot

In order to achieve greater transparency about costs, new regulations came into force on 6 April 2018 which require the Trustee to provide members with additional information in relation to investment charges and transactions costs.

The illustration has been prepared in accordance with the relevant statutory guidance and reflects the impact of costs and charges for three typical examples of AVC members within the Plan, using two funds and a Retirement Transition strategy (which were selected for broadly representing the highest and lowest investment returns and popularity with members).

The illustrations below show the projected fund values based on certain assumptions before and after charges so that the potential impact of charges is clearly shown. Members should be aware that these are simply illustrations, and so the actual fund values and implication of charges for an individual member are likely to differ due to personal details, investment choices and actual performance of the funds. This means that the information contained in this Appendix is not a substitute for the individual and personalised illustrations which are provided to members each year by the Plan.

Example Member	Years	Aquila Life (40:60) Global Equity Fund		Aquila Life Over 15 Year UK Gilt Fund		Global Equities Retirement Transition		Total contributions paid during period
		Before charges	After charges	Before charges	After charges	Before charges	After charges	
Youngest AVC member Starting pot: £0	1	£800	£800	£800	£800	£800	£800	£750
	3	£2,400	£2,400	£2,300	£2,300	£2,400	£2,400	£2,250
	5	£4,200	£4,200	£3,800	£3,800	£4,200	£4,200	£3,750
	10	£9,400	£9,300	£7,700	£7,600	£9,400	£9,300	£7,500
	15	£15,900	£15,600	£11,700	£11,500	£15,900	£15,600	£11,250
	20	£24,100	£23,300	£15,800	£15,400	£24,100	£23,300	£15,000
	25	£34,200	£32,800	£20,000	£19,400	£34,200	£32,800	£18,750
	30	£46,800	£44,500	£24,300	£23,500	£46,800	£44,500	£22,500
	35	£62,500	£58,800	£28,700	£27,600	£62,400	£58,700	£26,250
40	£82,100	£76,400	£33,200	£31,700	£72,500	£67,600	£30,000	
Average active AVC contributor Starting pot: £50,000	1	£57,400	£57,200	£55,300	£55,100	£57,400	£57,200	£5,000
	3	£73,100	£72,500	£65,900	£65,500	£73,100	£72,500	£15,000
	5	£90,300	£89,200	£76,600	£75,900	£90,300	£89,200	£25,000
	10	£140,500	£137,400	£103,800	£102,100	£140,500	£137,400	£50,000
	15	£203,000	£196,600	£131,800	£128,700	£202,600	£196,200	£75,000
	20	£280,900	£269,300	£160,400	£155,700	£248,800	£238,700	£100,000
Average deferred AVC member Starting pot: £50,000	1	£52,300	£52,100	£50,300	£50,100	£52,300	£52,100	£0
	3	£57,100	£56,600	£50,800	£50,400	£57,100	£56,600	£0
	5	£62,300	£61,400	£51,300	£50,700	£62,300	£61,400	£0
	10	£77,600	£75,500	£52,600	£51,400	£77,600	£75,500	£0
	15	£96,800	£92,800	£53,900	£52,100	£96,600	£92,600	£0
	20	£120,600	£114,000	£55,200	£52,800	£106,300	£100,600	£0

### Notes:

1. Projected pension account values are shown in today's terms.
2. Contributions and costs/charges that are shown as a monetary amount and reductions are made 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 applying investment returns.
5. Switching costs are not considered in the lifestyle strategy.
6. Inflation is assumed to be 2.5% each year.
7. Contributions are assumed from age 25 to 65 and increase with inflation.

8. Values shown are estimates and are not guaranteed.
9. The nominal projected growth rates for each fund are as follow:
  - Aquila Life (40:60) Global Equity Fund – 4.50%
  - Aquila Life Over 15 Year UK Gilt Fund – 0.50%
  - Global Equities Retirement Transition – from 0.50% to 4.50% (adjusted depending on term to retirement).
10. Transactions costs and other charges have been provided by Aegon and covered the period to 31 December 2018.
11. Pension scheme's normal retirement age is 65.
12. Example members
  - Youngest: age 25, total contribution: £750, starting fund value: £0
  - Average active: age 45, total contribution: £5,000, starting fund value: £50,000
  - Average deferred: age 45, total contribution: £0, starting fund value: £50,000