

The Aon MasterTrust

Extract from the Chairman's Annual Governance Statement
Review of the default investment options

For the year ended 31 December 2019

Registered Number: 12012503

The Aon MasterTrust

Extract from the Chairman's Annual Governance statement

DEFAULT ARRANGEMENTS

The Trustee is required to design the default arrangement in members' interests and keep it under review. The Trustee needs to set out the aims and objectives of the default arrangement and take account of the level of costs and the risk profile that are appropriate for the Scheme's membership.

A copy of the current Statement of Investment Principles ("SIP") prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is included on page 43 of this report and accounts and available at the following link: aonmt.tbs.aon.com/publicdisclosures. The SIP sets out the Trustee's investment aims and objectives and the principles followed to ensure the investment strategies in place are appropriate for members of the Scheme.

The Trustee has appointed Aon Solutions UK Limited ("Aon") to provide them with professional advice in relation to the design of the default investment strategy and the wider range of self-select investment options offered as standard to each Section of the Scheme and that assets held in default investment options are invested in the best interests of members of the Scheme.

The Trustee has also appointed Aon Investments Limited ("Aon Investments") to provide investment management services to the Scheme.

The default investment strategy comprises six default investment options from which the sponsoring employer for each Section will select one. The Trustee considers each of these default investment options to be a "default arrangement" within the meaning of regulation 3 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

For each Section, the employer and the Trustee receives advice on the suitability of the chosen default option. The default arrangement is provided for members who join the Scheme and do not choose an investment option for their contributions. These default investment options are structured as target date funds designed to provide members with an appropriate balance between risk and return over their lifetime, accessed through a single investment fund providing exposure to a diversified mix of assets at retirement. There are two series of target date funds:

- **Aon Managed Retirement Pathway Fund series** which invest in a portfolio of assets which can include actively and passively managed funds; and
- **Aon Managed Core Retirement Pathway Fund series** which invest in a portfolio of assets which are mainly or wholly passively managed funds and so have lower investment management charges.

The following default investment options have been set by the Trustee:

- **Aon Managed Retirement Pathway Fund** - targets flexible income drawdown at retirement;
- **Aon Managed Retirement Pathway to Annuity Fund** – targets annuity purchase at retirement;
- **Aon Managed Retirement Pathway to Cash Fund** – targets cash at retirement;
- **Aon Managed Core Retirement Pathway Fund** – targets flexible income drawdown at retirement;
- **Aon Managed Core Retirement Pathway to Annuity Fund** - targets annuity purchase at retirement; and
- **Aon Managed Core Retirement Pathway to Cash Fund** – targets cash at retirement.

The Aon MasterTrust

Extract from the Chair's Annual Governance statement (continued)

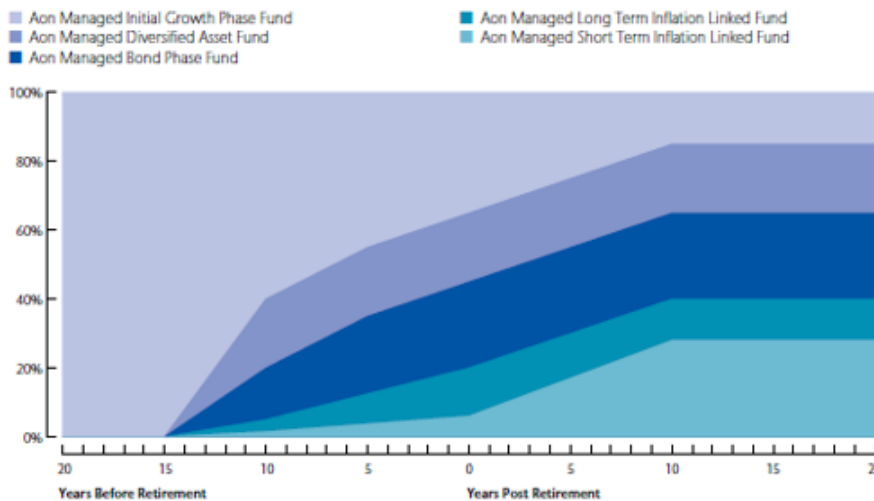
The aims and objectives of these default investment options, as stated in the SIP, are as follows:

- To maximise the potential for capital growth;
- To help manage the investment risks at each stage of an investor's life; and
- To provide members with the ability to invest in a single fund, from entry and all the way through to retirement and beyond. The default investment options will automatically adjust the investment strategy as the funds progress towards members' chosen target retirement dates.

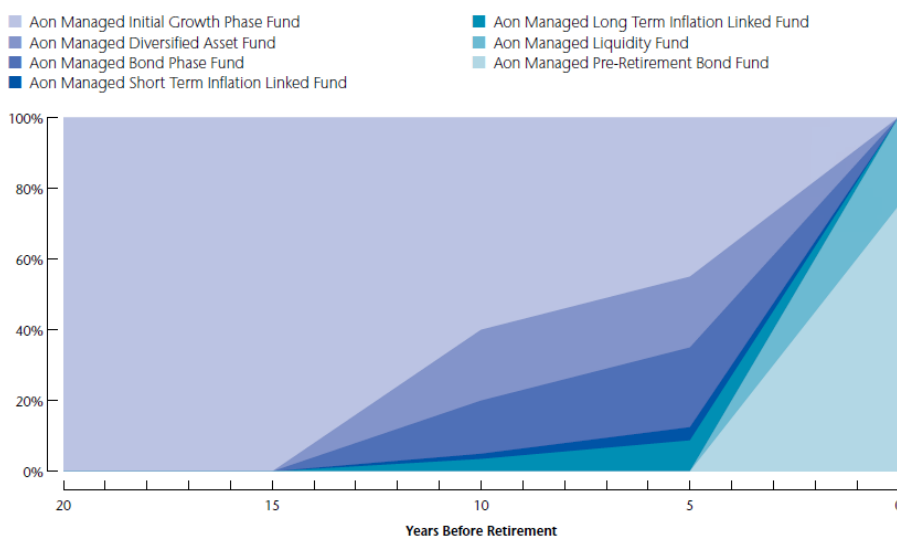
The Retirement Pathway approach offers a “hands-off” member approach which looks to automatically move members from higher return, higher risk investments to lower risk, lower return investments as they near their retirement age in order to protect the value of their funds.

The glidepaths for the three default investment options in the Aon Managed Retirement Pathway Fund series are shown below:

Aon Managed Retirement Pathway Funds: Glide path to income drawdown



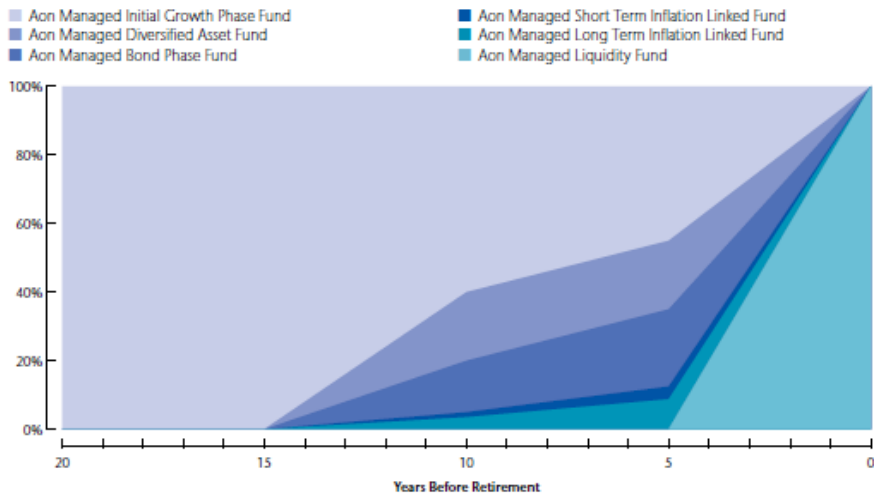
Aon Managed Retirement Pathway to Annuity Funds: Glide path to annuity



The Aon MasterTrust

Extract from the Chair's Annual Governance statement (continued)

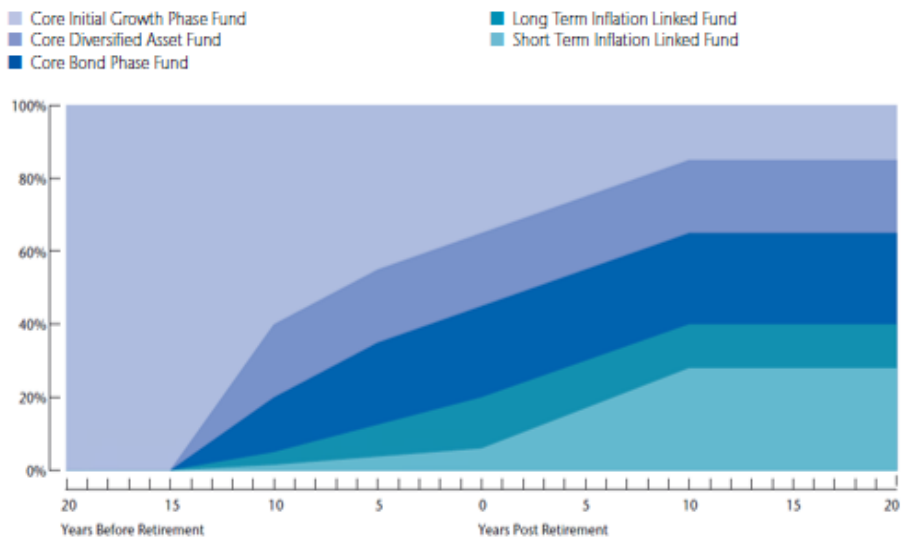
Aon Managed Retirement Pathway to Cash Funds: Glide path to cash



Please note that this diagram is for illustrative purposes only and provides an idea of what the asset allocation may be. Actual asset allocation may differ from that set out in this diagram.

The glidepaths for the three default investment options in the Aon Managed Core Retirement Pathway Fund series are shown below:

Aon Managed Core Retirement Pathway Funds: Glide path to income drawdown

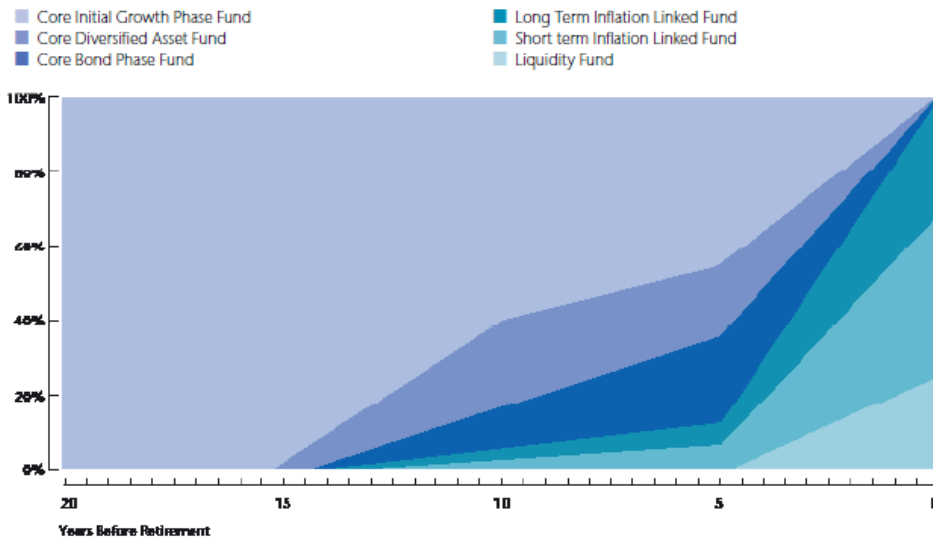


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The Aon MasterTrust

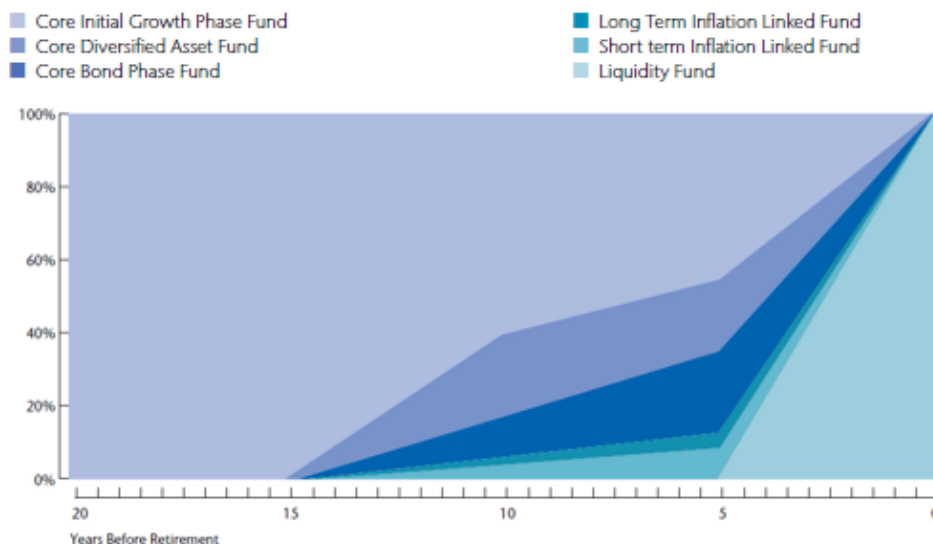
Extract from the Chair's Annual Governance statement (continued)

Aon Managed Core Retirement Pathway to Annuity Funds: Glide path to annuity



Please note that this diagram is for illustrative purposes only and provides an idea of what the asset allocation may be. Actual asset allocation may differ from that set out in this diagram.

Aon Managed Core Retirement Pathway to Cash Funds: Glide path to cash



Please note that this diagram is for illustrative purposes only and provides an idea of what the asset allocation may be. Actual asset allocation may differ from that set out in this diagram.

Investment strategy review and upcoming changes

The investment strategy for the default investment options was fully reviewed during the period and potential changes to the investment strategy were discussed at the 3rd June 2019 Trustee meeting.

The Trustee agreed to some revisions, recommended by its investment advisers, for the long-term strategy and asset allocation that is used within the default options. The revised approach:

- Establishes clear and measurable performance objectives for the investment strategy for members at different points in time, linked to inflation;
- Considers the appropriate asset allocation strategy for each group of members, based on the performance objectives; and

The Aon MasterTrust

Extract from the Chair's Annual Governance statement (continued)

- Enables past performance experience and changes in future yield expectations relevant to specific cohorts of members to be reflected within the asset allocation either by delaying de-risking if performance is below objective or by de-risking earlier than expected if performance has been better than expected.

The Trustee's investment advisers confirmed that these changes were appropriate for the Scheme's membership and consistent with the aims of the Scheme's default investment options in accordance with the Statement of Investment Principles, which remain unchanged.

The above changes are due to be implemented in Q3/Q4 2020.

Furthermore, during the period, the Trustee reviewed changes made by the investment manager under the discretionary mandate to the underlying asset allocation and managers used within the default investment options and wider fund options available. This information was provided on a quarterly basis through investment reports provided by the investment advisers and discussed at each quarterly Trustee meeting.

In November 2019 changes were made to the Aon Managed Progressive Growth Phase Fund which included changes to the benchmark and performance objective. As part of these changes, the Fund has been renamed the Aon Managed Diversified Asset Fund. This Fund is used within the Aon Managed Retirement Pathway Fund series and is also available as a self-select option.

The Trustee is satisfied that the default investment options are appropriate for the Scheme.

Whilst all current Sections use one of the existing six available default investment options, there is flexibility for Sections to have a bespoke default investment arrangement.

The **Aon Managed Diversified Multi Strategy Bond Fund** has also been classified as a default investment option due to the way in which member's assets were mapped from the Prudential With Profits Fund within the ACCO Section. This Fund is deemed as a suitable default for these members as it has similar potential characteristics (low volatility and steady growth) to their previous with-profits fund. The Trustee received investment advice in relation to this on 9 September 2019.

The Trustee undertakes a full formal review of the default arrangement at least every three years and aims to undertake interim reviews annually. The next full review is due to take place by 3 June 2022.

A range of self-select options is available to accommodate members who want more involvement in managing their investments.

Performance Monitoring

The Trustee has monitored the performance of the default investment options and wider fund options available against agreed benchmarks on a quarterly basis during the period.

The Trustee is satisfied that the default investment options are performing in line with stated objectives.