

Mattel UK Limited Retirement & Death Benefits Plan

Annual Governance Statement for the year ending 31 December 2018

This statement has been prepared by the Trustee of the Mattel UK Limited Retirement & Death Benefits Plan (the 'Plan') to demonstrate how the Plan has complied with the governance standards introduced under the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

The Defined Contribution (DC) Section of the Mattel UK Limited Retirement & Death Benefit Plan closed to accrual in 2010 and no new contributions have been received into the DC Section since then. Prior to the closure, the DC Section had been used as the primary vehicle for pensions saving (DC members and Additional Voluntary Contributions for DB Section members). During 2016 the Trustee completed a review of the investment options and transferred the administration of the DC Section to Legal & General (L&G).

Investment strategy

The Plan's investment strategy is set out in the Statement of Investment Principles ('SIP') which governs its decisions about investments including its aims, objectives and policies for the Plan's default arrangements, prepared in accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005.

Default arrangement

Following the investment review in 2016, the Trustee selected the L&G Annuity Lifestyle as the new default option. DC members invested in the previous default option were transitioned into this default when the administration was transferred to L&G. This lifestyle targets the purchase of an annuity at Selected Retirement Age (SRA) and gradually switches into the L&G Pre-Retirement Fund and L&G Cash Fund from three years before SRA.

Whilst the majority of members are invested in the L&G Annuity Lifestyle and a default was in place when the DC Section was open to accrual this is not a default option as defined under the Investment Regulations and for the purposes of the Chair's statement. This is because the Plan has not been used as a qualifying scheme for auto-enrolment purposes.

The Trustee will periodically, and on no less than a three yearly cycle, review the appropriateness of the default arrangement. If there are any significant changes in legislation, investment policy or member demographics an earlier review may be undertaken. The next review will be undertaken in 2019.

Alternative lifestyle strategies

The Trustee also offers two alternative lifestyle options to ensure members have a range of suitable options:

- L&G Cash Lifestyle – This targets a lump sum withdrawal of the entire account and gradually switches into the L&G Cash Fund from three years before SRA.
- L&G Drawdown Lifestyle – This is designed to facilitate the drawdown of retirement income and gradually switches into the L&G Retirement Income Multi-Asset Fund from three years before SRA.

Members can switch in to these alternative lifestyle options at any time if that better suits their retirement plans.

As part of the investment review in 2016, DB AVC members were transitioned to the L&G Cash Lifestyle as AVC members are able to use their AVC account as part of their tax free cash entitlement from the Plan and many members typically use it for this purpose.

Self-select options

The Trustee also offers members the option to select their own investment strategy. A range of funds is provided offering a mixture of real and monetary assets.

L&G Fund Name	Fund Management Charge	Transaction costs
Overseas Equity Consensus Index Fund	0.14%	-0.01%
Multi-Asset Fund	0.13%	0.01%
UK Equity Index Fund	0.10%	-0.01%
Retirement Income Multi-Asset Fund	0.30%	0.26%
Pre-Retirement Fund	0.12%	0.02%
Over 5Yr Index Link Gilt Fund	0.08%	0.05%
Cash Fund	0.10%	-0.04%

Note: The funds in bold are included within the default strategy

Charges

The level of charges in relation to the investment options including the default arrangement during the Plan year are set out in the table above. The funds included within the default strategy are noted in bold.

During the finalising of this statement it has come to light that the administration charge has been incorrectly applied to members. The Trustee is in the process of investigating this error to ensure it is rectified for both members' past and future charge deductions.

The Fund Management Charge (FMC) varies by investment fund and is reflected in the price of units. The FMC for each fund includes an allowance for these expenses.

Transaction costs

Transaction costs are incurred by the fund managers as a result of buying, selling, lending or borrowing investments. These costs are taken into account via the unit price for each of the funds and are not directly charged to the members.

Total transaction costs have been provided by L&G to 31 December 2018 and rounded as a percentage to the nearest 2 decimal places. They can be positive or negative depending on whether investment fund prices are rising or falling and whether the fund is buying or selling units.

The impact of charges and transaction costs

A 'pounds and pence' illustrative example of the cumulative effect of costs and charges is included in the Appendix.

Investment Monitoring

The Trustee receives quarterly investment reports from L&G covering the performance and where appropriate the tracking error of the underlying funds on a regular basis, against the agreed L&G objectives. The Trustee is happy with the performance of the investment funds and specifically the performance of the L&G Multi-Asset fund, as the primary fund with the default lifestyle, that outperformed its comparator fund during 2018.

Financial transactions

Plan administration in respect of the DC section, including the processing of financial transactions, is undertaken by L&G. Processes adopted by L&G to help meet the agreed service levels include:

- Full integration between their administration platform and dealing system.
- Electronic checking of financial transactions.
- Straight through processing for the majority of administrative functions.
- "Second set of eyes" for checking of manual tasks and "three" for high risk processes.

There is a five working day service level agreement in place with L&G and the Trustee receives quarterly management reports outlining performance against these service standards.

The Trustee monitors the core financial transactions of the Plan at each Trustee meeting. These include transfers into and out of the Plan, fund switches and payments out of the Plan to and in respect of members (no contributions are paid in to the Plan). Evidence of issues or delays are included in the report so the Trustees can address these if needed.

The Trustee, having considered the reports received from L&G has concluded that the Plan's core financial transactions have been processed promptly and accurately during the Plan year.

The Trustee has also noted the transfer of the L&G administration from Kingswood to Cardiff. Whilst there has been no noticeable impact on service standards the Trustee will keep this under review.

There have been no member complaints in during the Plan year.

Value for Members (VFM)

The Trustee is committed to ensuring that members receive VFM from the Plan i.e. the costs and charges deducted from members' accounts and contributions paid represent good value in relation to the benefits and services provided by or on behalf of the Trustee.

Consequently, in September 2018, the Trustee completed an assessment of 'needs versus performance' across the key areas of the Plan and it believes that this arrangement provides

Area	Rating	Rationale for rating
Value for members		
Charges	Excellent	<ul style="list-style-type: none"> The Company meets the administration costs, which is of significant value to members. Members meet the fund management charges (FMCs), which range from 0.08% to 0.30%. The Fund Management Charge for the growth phase of the Lifestyle strategies is 0.13%, which is significantly below the charge cap of 0.75% and the average Total Expense Ratio (TER) of 0.43% for other DC arrangements within Willis Towers Watson's survey.
Investment	Sufficient	<ul style="list-style-type: none"> In 2016, the Trustee set up lifestyle strategies that are appropriate for the two categories of deferred members, DC members (annuity lifestyle) and DB AVC members (cash lifestyle). An alternative drawdown lifestyle strategy and seven self-select funds are also available.
Administration	Good	<ul style="list-style-type: none"> The Trustees have a detailed service level agreement (SLA) in place and receive quarterly reports from L&G to measure performance.
Communication	Sufficient	<ul style="list-style-type: none"> The Plan provides communications that are accurate, informative and timely. L&G provides a range of communication materials, comprising of written, web-based and video mediums. Communication are relatively generalised and not tailored in any detail to the Scheme specifics
Broader elements of Value		
Scheme governance and management	Good	<ul style="list-style-type: none"> Costs associated with governance and oversight are met by the Company.

good value overall.

The Trustee will carry out a Value for Members assessment on an annual basis and will continue to review the costs and transaction charges deducted each year in order to ensure they continue to represent good value for members.

Trustees' knowledge and understanding (TKU)

The Trustee is satisfied that it has largely met its knowledge and understanding duties during the Plan year by:

- On the job trustee training within meetings included:
 - a recap of the DC Code was provided by Willis Towers Watson
 - an update on the GDPR changes provided by the Trustee's legal advisor
 - details of the new Chair's statement requirements and Value for members assessment.
- Circulating hot topics and general updates from its advisers about matters relevant to the Plan such as updated requirements for communicating transaction costs, Statement of Investment Principles and Chair's Statement.

The Trustee Directors recognise they are not up to date with the Pensions Regulator's Trustee Toolkit and have made a commitment to complete the relevant parts of the Trustee Toolkit by 31 December 2019, filling any knowledge gaps as appropriate.

There were two new Trustee Directors appointed during the year, Aimee Williams and Prashant Bapna. All new Directors are required to complete the Trustee Toolkit within 6 months of appointment, and receive one-to-one training with the Plan's advisors.

The Trustee also has access to the services of a range of professional advisors and all Trustee decisions are supported by professional advice where required, this includes attendance of professional advisors at Trustee meetings, if appropriate.

In summary

The Trustee Directors recognise that keeping their knowledge and understanding up to date is critical and whilst there is significant experience and expertise on the Board there is a need to continue to work at this and support new Trustee Directors as they are appointed to the board.

Appendix - 'pounds and pence' illustrative example of the cumulative effect of costs and charges

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Example Illustrations

As trustees we are required to provide you with examples to show you what you might get from your plan in today's terms and explain how charges, transaction costs and investment performance could impact your pension savings over time.

Showing the value of money in real terms takes the effect of inflation into account and give an indication of how much a sum of money in the future would be worth today. This is called its buying power.

These examples were correct as at May 2019.

We have assumed the following:

- That the amounts paid in to your pension will not change over time and that the frequency will not vary. In reality contributions paid into your pension are linked to salary so will vary over time and may also be impacted by changes in pensions legislation or breaks in employment.
- We've assumed inflation remains constant at 2.50% per year. In reality this will vary over time. Inflation reduces the worth of all savings and investments.

Please remember that these are just examples and may not reflect your individual circumstances. The exact amount you'll get will depend on a number of things including:

- The actual amount paid into your plan;
- How the fund or investments that you hold perform;
- When you choose to access your pension savings.

Costs and charges

We've assumed a number of charges in these illustrations and assume that they will not change over time. These charges reflect the costs incurred in keeping your pension plan running smoothly and managing the funds you're invested in.

Annual management charge (AMC): 0.20%

This covers the cost of running your pension plan, as agreed with your employer and is deducted from your plan monthly.

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Costs and charges

Investment choices

The investment strategy used in these illustrations is L&G PMC Multi-Asset 3. This is the default investment option for your scheme. We've used the following fund management charge (FMC) and growth rate(s) in these illustrations. These growth rates take into account the effect of inflation. If you are invested in a Pathway fund the growth rates assume that you are invested in the fund from the 1st January each year.

Fund name	FMC	Growth rate	Transaction costs
L&G PMC Multi-Asset 3	0.13%	2.1%	0.01%

Fund management charge (FMC)

This covers the cost of managing the fund or funds you're invested in and is included in the funds unit price.

Transaction costs

Transaction costs reflect the trading costs incurred by a fund in day-to-day management and when you make a request to buy, sell or switch your investments. Where transaction costs data is available we've included them in the calculation of these illustrations and they are based on the average yearly costs incurred, measured over a period of up to the last five years. This may be different to the charges shown on the scheme's annual chairman's statement. If the value in the table above is N/A we've not been able to include them, but you may still incur these costs.

If a cost does apply, it will not have been included in the calculation of your pension benefit statement so the outcomes may be different. It will be reflected in the unit prices used to calculate the value of your pension pot. You can find out more about transaction costs at landg.com/transactioncosts.

Retirement age

We have assumed that you will take your pension benefits when you reach 65 and that you are currently aged 45. These illustrations assume your money will remain invested for the periods shown in the table.

How will the charges affect what my pension is worth?

Pot value at end of year	Current fund value: £10,000.00 Contribution: £0.00 per month		Current fund value: £25,000.00 Contribution: £0.00 per month		Current fund value: £80,000.00 Contribution: £0.00 per month	
	Investment growth after inflation reduced from 2.1% a year to 1.8%.		Investment growth after inflation reduced from 2.1% a year to 1.8%.		Investment growth after inflation reduced from 2.1% a year to 1.8%.	
	No charges	After all charges	No charges	After all charges	No charges	After all charges
1	10,215	10,180	25,537	25,450	81,717	81,440
3	10,658	10,550	26,645	26,374	85,263	84,397
5	11,120	10,933	27,801	27,332	88,962	87,462
10	12,366	11,953	30,915	29,881	98,928	95,621
20	15,292	14,286	38,229	35,716	122,334	114,291

Important note:

The charges mean that the value of your pension pot could be less than has been paid in, particularly if contributions stop during the early years of your pension plan.