

**MCKINSEY & COMPANY, INC. PROFIT-SHARING RETIREMENT PLAN (THE "SCHEME")**

**ANNUAL GOVERNANCE STATEMENT FOR ARTICLE 14 (THE UK TAX REGISTERED SECTION) OF THE  
SCHEME FOR YEAR ENDING 31 DECEMBER 2018**

**PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES  
(SCHEME ADMINISTRATION) REGULATIONS 1996 (THE "REGULATIONS")**

1. Default arrangement
  - 1.1 A copy of the statement of investment principles prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is attached.
  - 1.2 The trustees monitor performance of all funds each month and meet quarterly to discuss performance and any appropriate changes to funds. No changes were made to the Article 14 default fund during the year since returns continued to be consistent with the trustees' default strategy objective of providing long-term growth potential without undue risk and at low cost.
2. Core financial transactions
  - 2.1 The trustees consider that the requirements of regulation 24 of the Regulations have been met. Contributions to the Scheme no longer occur for Article 14 members of the Scheme since it has only deferred members. There were no transfers of Article 14 members' assets into the Scheme during the Scheme year. Other core financial transactions (including transfers of members' assets out of the Scheme, payments to Scheme members, and transfers of members' assets between investments within the Scheme) have been processed accurately and promptly.
  - 2.2 The Scheme's funds trade only at month-end and transfers out of the Scheme require advanced notice due to the investment and administrative structure of the Scheme. Article 14 members' balances can be withdrawn or transferred to another scheme within approximately 75 days following receipt of all relevant paperwork, subject to any investigations required where there is evidence of a pensions scam. Members are made aware of the timing and notice requirements on the Scheme's web site and on the relevant paperwork.
  - 2.3 Transfers between Scheme investments take place annually in December. In early October, members designate how they want their accounts allocated among the Scheme's investment funds as of the end of the year. Those allocations are given effect no later than 31 December.

Scheme representatives meet at least annually with the third-party administrator to discuss its performance over the past year and to explore ways that services to members, including the handling of core financial transactions, can be improved. If issues arise, meetings are held more frequently to resolve issues. There were no issues with the processing of core financial transactions over the year. The Scheme conducts daily monitoring and management of bank accounts. All payments from the Scheme must be authorized by at least 3 individuals. Reconciliations are performed on a regular basis and overseen by an external accounting firm.

3. Charges and transaction costs
  - 3.1 Default fund charges are compliant with the cap on such charges in current legislation. All fund charges are disclosed to members in the Learning & Guidance materials available through the online pension portal.
  - 3.2 The default fund for Article 14 members is 50% invested in the Passive US Equities Portfolio and 50% invested in the Passive US Bonds Portfolio, rebalanced annually. The annual management charge on the Article 14 default fund in 2018 was 0.02% of assets under management.
  - 3.3 All members pay an administration charge each year representing actual costs incurred by the Scheme. In 2018, administrative fees were \$115 per member.
  - 3.4 Costs and charges disclosed in respect of the Scheme's actively managed funds are estimated by MIO Partners, Inc. ("MIO"), the Scheme's in-house asset manager, based on its own extensive investigation. For 2018, the charges were as follows (including a pass-through of the pro-rated costs incurred by MIO in managing the funds and fees to third-party managers):

<b>Fund</b>	<b>2018 expenses</b>
Special Situations Portfolio	6.3%
Special Situations Enhanced-Liquidity (USD) Portfolio	4.4%
Special Situations Enhanced-Liquidity, Multi-Currency Hedged Portfolio	3.7% <sup>1</sup>

Members also incur transaction costs in respect of the actively managed funds. It is not possible to obtain a precise accounting of all of the transaction costs for the actively managed funds, as they contract with more than one hundred fund managers. Three of the actively managed funds available to Article 14 members – the Special Situations Portfolio, Special Situations Enhanced-Liquidity Portfolio (US Dollar Version), and the Special Situations Enhanced-Liquidity Portfolio (Multi-Currency Hedged Version) – aim to achieve growth that is not correlated with a particular market (eg, equities markets) while controlling volatility. The trustees believe that members should continue to be allowed access to these funds, despite relatively high investment management and other charges, because the funds have demonstrated an ability to achieve their goals and provide unusual value to members, both in relation to performance and to control of volatility, once the charges are taken into account.<sup>2</sup>

- 3.5 Investment management fees disclosed in respect of the Scheme's passively managed funds were as follows in 2018:

<sup>1</sup> 2017 figure used because fund was withdrawn effective 31 December 2018.

<sup>2</sup> The Special Situations Enhanced-Liquidity Portfolio (Multi-Currency Hedged Version) was withdrawn at the end of 2018 for technical reasons.

<b>Fund</b>	<b>2018 expenses</b>
Passive US Equities Portfolio	0.013%
Passive Non-US Equities Portfolio	0.035%
Passive US Bonds Portfolio	0.028%
Passive German Bonds Portfolio	0.15% <sup>3</sup>
Passive Inflation-Linked Bonds Portfolio	0.028%
Passive US Dollar Money Markets Portfolio	0.13%
Passive Short-Term German Bonds Portfolio	0.14% <sup>3</sup>
Target Retirement Income Fund	0.08%
Target Retirement 2020 Fund	0.076%
Target Retirement 2025 Fund	0.076%
Target Retirement 2030 Fund	0.076%
Target Retirement 2035 Fund	0.077%
Target Retirement 2040 Fund	0.077%
Target Retirement 2045 Fund	0.078%
Target Retirement 2050 Fund	0.08%
Target Retirement 2055 Fund	0.088%
Target Retirement 2060 Fund	0.12%

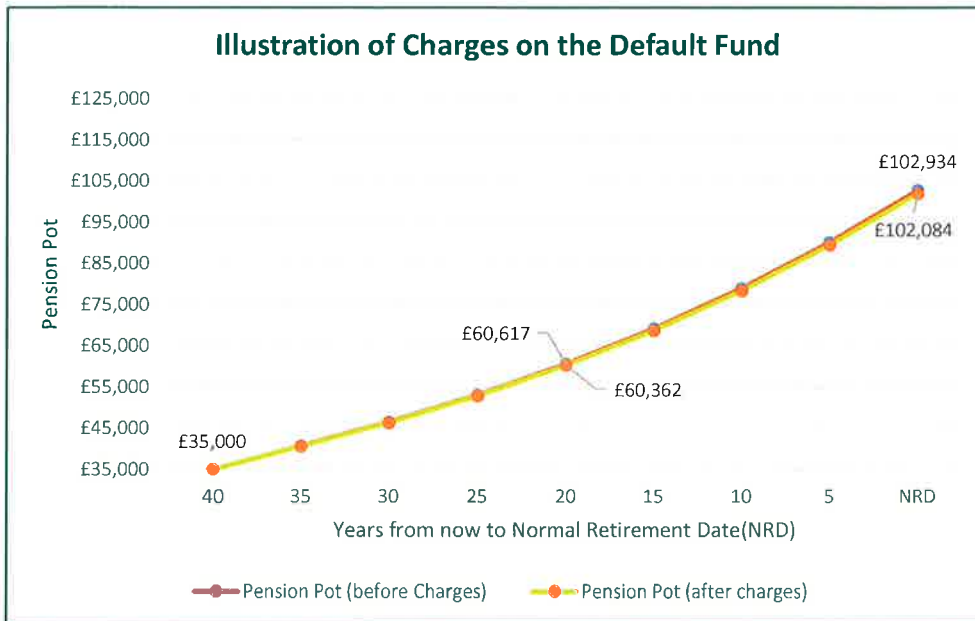
3.6 The trustees examine the value to members offered by all of the investment offerings annually. There also is an Administrative Committee with responsibility for administration of the Scheme, other than investments. That committee examines the value to members of administration costs and services.

3.7 The default fund and passively managed fund charges, combined with the administration charge, are significantly below the 0.75% statutory charge cap. The trustees consider these charges represent good value to members and competitive fees, taking into consideration the quality of the services provided for the cost, including the fund management, administration and communications support services.

**3.8 An illustration of the charges levied on members**

Below you can find an illustration of the effect of the charges and transaction costs met by members on an example pension pot over time.

<sup>3</sup> 2017 figure used because fund was withdrawn effective 31 December 2018.



This is for illustration only. The actual returns received are likely to differ over time as will individual members' Pension Pot sizes. This illustration is based on:

- The Plan's default investment option strategy (as detailed in Appendix A)
- An initial Pension Pot of £35,000
- No further contributions are paid.
- Investment Returns are estimated as 5.25% p.a. based on the default portfolio split 50% invested in the Passive US Equities Portfolio (7.0%) and 50% invested in the Passive US Bonds Portfolio (3.50%), rebalanced annually (before the deduction of charges or expenses).
- Inflation of 2.5% p.a.

An Illustration for the default investment shown in monetary terms is shown in Appendix B of this statement.

### 3.9 What are the assumptions based on?

In preparing these illustrations, the trustees had regard to:

- The Department for Work and Pensions (DWP) - Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes
- Actuarial Standards Technical Memorandum 1 (AS TM1 v4.2) issued by the Financial Reporting Council (FRC); and
- The Financial Conduct Authority (FCA) Transaction cost disclosure in workplace pensions Policy Statement PS17/20.

## 4. Trustee knowledge and understanding

- 4.1 The trustees as a whole possess or have access to the knowledge and understanding necessary to properly run the Scheme and ensure good standards of governance and administration. The trustees bring a broad range of skills and experience in finance, communications, financial services and technology to their roles. In-house training supporting their work as trustees is encouraged and independent evaluation of their governance processes was undertaken.

- 4.2 The trustees ensure that they maintain their knowledge and understanding of the Scheme's trust deed and rules, Statement of Investment Principles, Scheme policies, the law relating to pensions and trusts and the relevant principles relating to the funding and investment of the Scheme. At trustee meetings, the trustees receive updates from legal counsel on relevant legal developments and from the investment advisor on investment matters..
- 4.3 The trustees also make use of expert advisers. The in-house asset manager (MIO) attends each quarterly meeting of the trustees, as does internal legal counsel to the trustees. Advice is taken from external legal counsel as appropriate to facilitate compliance with best practice and the smooth administration of the Scheme.

No new trustees were appointed during the year and so no induction courses were run.

Signed for and on behalf of  
The Trustees of the McKinsey & Company, Inc.  
Profit-Sharing Retirement Plan by

Date: 31 July 2019



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Christopher Leech, Chair of the Trustees

## APPENDIX A

### MCKINSEY & COMPANY, INC. PROFIT-SHARING RETIREMENT PLAN (THE "SCHEME")

#### Default Arrangement Statement of Investment Principles for Article 14 Members

This Statement of Investment Principles ("SIP") for the default arrangement is prepared by the trustees of the Scheme in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005.

The trustees provided a default fund in the event a member of Article 14 of the Scheme failed to choose the portfolios in which he or she wished to invest new contributions. The default fund for Article 14 members is 50% invested in the Passive US Equities Portfolio and 50% invested in the Passive US Bonds Portfolio and rebalanced each 31 December. Article 14 members' balances can be liquidated for withdrawal or transfer to another Scheme within approximately 75 days following receipt of notice.

The trustees believe this default arrangement continues to provide a suitable mix of equities and fixed income that is appropriate for the Article 14 population, balanced between higher expected returns/potential risks and lower expected returns/potential risks. This strategy is intended to ensure that assets are invested in the best interests of Article 14 members and beneficiaries by meeting the trustees' objective of providing long-term growth potential without undue risk and at low cost.

The trustees monitor the investment returns and risk on a monthly basis, compare these against their expectations and objectives, and take action as appropriate.

The trustees do not take social, environmental or ethical considerations into account in the selection, retention and realisation of investments in the default arrangement.

Signed for and on behalf of  
The Trustees of the McKinsey & Company, Inc.  
Profit-Sharing Retirement Plan by

Date: 31 July 2019



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Christopher Leech, Chair of the Trustees

Appendix B  
Projections

The chart shows in money terms the accumulative effect of charges taken from a members fund in respect to charges over time.

Default Investment Strategy					
Years from Now	Pension Pot (before Charges)	Pension Pot (after charges)	Years from Now	Pension Pot (before Charges)	Pension Pot (after charges)
1	£36,654	£36,642	21	£62,243	£61,969
2	£37,638	£37,617	22	£63,913	£63,618
3	£38,648	£38,619	23	£65,628	£65,312
4	£39,684	£39,647	24	£67,388	£67,050
5	£40,749	£40,702	25	£69,196	£68,835
6	£41,842	£41,786	26	£71,053	£70,668
7	£42,965	£42,898	27	£72,959	£72,549
8	£44,118	£44,040	28	£74,917	£74,480
9	£45,301	£45,212	29	£76,927	£76,463
10	£46,517	£46,416	30	£78,990	£78,498
11	£47,765	£47,651	31	£81,110	£80,588
12	£49,046	£48,920	32	£83,286	£82,733
13	£50,362	£50,222	33	£85,520	£84,936
14	£51,713	£51,559	34	£87,815	£87,197
15	£53,101	£52,932	35	£90,171	£89,518
16	£54,525	£54,341	36	£92,590	£91,901
17	£55,988	£55,787	37	£95,074	£94,347
18	£57,490	£57,272	38	£97,625	£96,859
19	£59,033	£58,797	39	£100,244	£99,437
20	£60,617	£60,362	40	£102,934	£102,084

**Assumptions**

Real Terms Investment Rates (%)\*5.25% before charges (5.23%after)

Pension Pot Value at Start £35,000