



# **McKinsey & Company, Inc. United Kingdom Additional Plan**

**DC Chairman's Statement**  
1 January 2019 to 31 December 2019

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**Disclaimers, confidentiality and non-disclosure**

This note has been commissioned by the Trustee of the McKinsey & Company, Inc. United Kingdom Additional Plan. The intended users of this note are the members. Its scope and purpose is to provide the Trustee with a report for members do demonstrate the governance of the scheme in line with legislation to publish an annual Chairman's statement. In preparing this statement and illustrations, the Trustee has had regard to:

- The Occupational Pension Schemes (Scheme Administration) Regulations 1996;
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018;
- The Pensions Regulator's Code of Practice number 13 on 'Governance and administration of occupational trust-based schemes providing money purchase benefits'; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix.

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# 01 Introduction

**This is the Chair's Statement for the McKinsey & Company, Inc. United Kingdom Additional Plan (the "Plan") covering the period 1 January 2019 to 31 December 2019.**

As the Chair of the Trustee, I am required under legislation to provide you with a yearly statement which explains what steps have been taken by the trustee board, with help and advice from our professional advisers, to meet the new governance standards. The law sets out what information has to be included in my statement and this is designed to help members achieve a good outcome from their pension savings.

The Plan is a Defined Contribution ('DC') arrangement providing benefits to members depending on their membership category. The Plan is being used as a qualifying scheme to comply with the automatic enrolment legislation in the UK, in relation to current employees of McKinsey & Company Inc UK.

The Plan has a default investment option and this is explained further in the section 2.

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**£369m**

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Total Defined  
Contribution funds  
in the Scheme.

## 01.01 Governance and Queries

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The Trustee is committed to having high governance standards and we have a Governance and Administration sub-committee who meet regularly to monitor the controls and processes in place in connection with the Plan's governance including investments, governance and administration.

I welcome this opportunity to explain what the Trustee do to help ensure the Plan 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 the Plan Secretary Amanda Sands.

The Plan was established by the first Definitive Deed dated 1<sup>st</sup> May 1986 in order to provide benefits for members of the McKinsey & Company, Inc. Limited UK.

I, Jonathan Harris, was appointed as the Chair of the Trustee in April 2018 and I am signing this Statement in that capacity.

# 02 Default Investment Strategy

## Statement of Investment Principles

A copy of the Statement of Investment Principles, which sets out the objectives for the Plan's investment strategy, is appended to this Statement as Appendix A

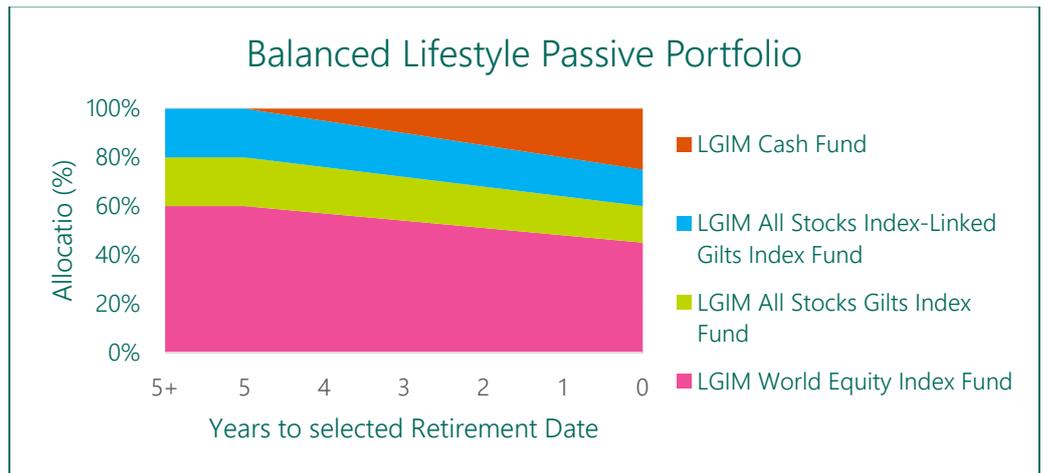
### 02.01 The default investment option

If members do not make their own investment choices in the Plan, their funds are invested in the "default investment option".

The Plan's default investment option is called the Balanced Lifestyle Passive Portfolio. This is what's known as a "lifestyle" strategy, which seeks to gradually switch investments into lower risk funds as you approach retirement.

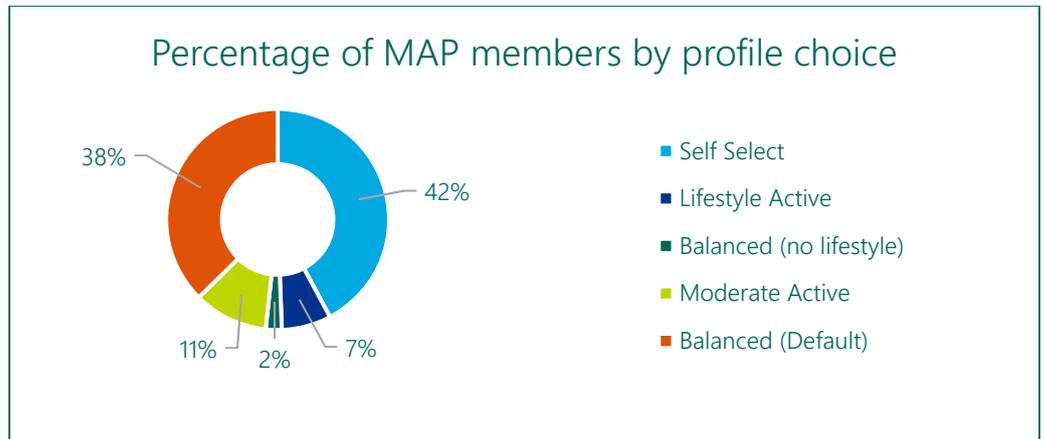
When you are more than five years from your target retirement date, the Balanced Lifestyle Passive Portfolio is invested entirely in the LGIM Balanced Fund. This fund invests in a mixture of equity (shares in companies) and bonds, aiming to achieve long-term capital growth whilst avoiding excessive risk. The LGIM Balanced Fund is "passively managed", which means it aims to track an index, rather than make regular trades to try and achieve excess returns.

Once you are within five years of your target retirement date, the Balanced Lifestyle Passive Portfolio, gradually switches your investments into the LGIM Cash Fund until, at your target retirement date, 25% of the investment is in cash. The remaining 75% remains in the LGIM Balanced Fund. The chart below shows the allocation of the underlying funds.



The proportions in the default investment option have been selected to be consistent with the most commonly desired retirement choices of Plan members. The option still provides an element of growth and so does still come with an element of risk.

Members can opt out of the default investment option and remain invested in the LGIM Balanced Fund, or any other fund offered by the Trustee.



Within the period covered by this report 38% of members had their contributions invested in the default investment option. This figure has risen from last year (up from 35%) but in comparison to other similar pension Plans is still extremely low showing a high level of member engagement in actively selecting their investment choice.

## 02.02 Reviewing the default investment arrangement

The Trustee is expected to review the investment strategy and objectives of the default investment option at regular intervals.

A review of the default investment option, including a review of the performance of the underlying funds, is undertaken each year. The review takes into account the needs of the Scheme membership to ensure the default arrangement remains appropriate, including looking at where members have chosen to invest. The characteristics of members who are enrolled in the default investment option because they made no investment choice are given particular consideration.

The Trustee continually monitors the investment performance and how members are accessing their benefits when assessing the default investment option and a survey is carried out to capture the Trustee's investment beliefs.

As a result of its 2019 review the Trustee concluded that the default investment option had met its aims and objectives and as a consequence concluded that it continues to offer good value for money to the members. The results of a Trustee member survey carried out in [•] demonstrated that on balance the current life styling was still appropriate and concluded that there was no reason to change the default investment option at that time.

The lifestyling element of the default investment option is kept under review for suitability in light of the choices that members make at retirement. It is noted that the membership is relatively young, and the lifestyling element of the default investment option will become more relevant as more members approach their target retirement date.

## 02.03 Reviewing the Pre-Select and Self-Select investment options

In addition to considering the membership profile, the Trustee also looks at the level of risk and number of investment funds offered to members, the changing long-term investment market conditions and the investment products and techniques available in the market place.

During the period covered by the Statement, the Trustee has reviewed the current range and performance of both the Pre-select (3 options) and Self-select (11 funds) investment options. This review included analysis of the fund returns against their benchmarks and consideration of general market trends and showed that the aims and objectives, as set out in the Plan's Statement of Investment Principles, continue to be met.

However, the Trustee considered a number of proposals around adding other asset classes and incorporating more of an Environmental, Social and Governance (ESG) aspect to reflect both the corporate and member views.

In the June 2020 Trustee meeting, the Trustee agreed the addition of two new Self-select funds and changes to the Pre-select range in order to include more protection for members through de-risking near retirement and more choice for members to embrace ESG values. The Trustee board will issue a series of communications to update members of the increased choices open to them, along with specific guidance on the effect the changes have for members.

## March 2020

The most recent review of the default arrangement's strategy and performance was concluded and signed off on 20<sup>th</sup> March 2020

# 03 Charges and transaction costs

Members may self-select their investment strategy, investing in any of these funds in whatever proportions they choose

## 03.01 Investment Manager Charges

The Trustee has selected a range of funds which they believe to be appropriate for members of the Plan. With the exception of the MIO Compass Special Situations fund, all of the funds are managed by Legal & General Investment Management (LGIM).

All the funds on the L&G platform offered are “passively managed”, which means they aim to track an index, rather than make regular trades to try and achieve excess returns. Members may self-select their investment strategy, investing in any of these funds in whatever proportions they choose. Alternatively, if they do not make a choice (or they make the positive decision to elect to) they can invest in the default investment option.

The charges and transaction costs applied to the default investment option (which is an average across the membership based on the split of their investments) along with the other available portfolio options and self-select funds available to members during the Plan year were:

Fund Name	Annual Management Charges (AMC)	Transaction Costs and other expenses	Total Expense Ratio
<b>Default Investment Option</b>			
Balanced Lifestyle Passive Portfolio	0.16%	0.00%	0.16%
<b>Self-Select Funds</b>			
MIO Compass Special Situations (“COSS”)	6.40%	0.80%	7.20%
HSBC Amanah Global Equity Index Fund	0.35%	0.00%	0.35%
LGIM Global Emerging Markets Index Fund	0.45%	0.00%	0.45%
LGIM World Equity Index Fund*	0.20%	0.00%	0.20%
LGIM UK Equity Index Fund	0.10%	0.00%	0.10%
LGIM Pre-Retirement Fund	0.15%	0.00%	0.15%
LGIM All Stocks Gilts Index Fund*	0.10%	0.00%	0.10%
LGIM All Stocks Index-Linked Gilts Index Fund*	0.10%	0.00%	0.10%
LGIM Cash Fund*	0.13%	0.00%	0.13%
LGIM Balanced Fund	0.16%	0.00%	0.16%
LGIM Balance Fund Hedged	0.16%	0.00%	0.16%
<b>Other Portfolios</b>			
Moderate Active Portfolio	4.51%	0.56%	5.07%
Balanced Portfolio	0.16%	0.00%	0.16%
Lifestyle Active Portfolio	6.40%	0.80%	7.20%

(Source: Source: MIO Partners and Legal & General Investment Managers (LGIM))

\*These funds are used in the default investment option and incorporated in the LGIM Balanced Fund.

Members may select any of the funds above and switch between these options should they wish.

# Charges and transaction costs

## continued

The Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation, introduced in January 2018 aimed to help investors to better understand and compare the key features, risk, rewards and costs of different investments through access to a short and consumer-friendly Key Information Document (KID).

The costs and charges shown in this statement were produced with reference to these regulations and, where possible, amalgamate any underlying costs. As a result, it does not try to detail all the trades made in the management of the fund(s) but amalgamates this into the overall charges applicable. The details shown are those in the most recent KID for each fund and estimates of the applicable charges are disclosed to members when they make investment decisions in the autumn each year.

The COSS fund aims to provide consistently high performance with low risk and volatility. The Trustee continues to believe that the fund provides value to members, and that it is appropriate for members to have access to the fund, despite relatively high investment management and other charges. This is because the COSS fund has demonstrated a consistent ability to achieve its goals and provide value to members, both in relation to performance and to control of volatility, after taking the charges into account. This has been most recently demonstrated following the events that took place after the year end with the effect of the Covid-19 pandemic on global markets, where the fund performed favourably in a difficult environment.

All the funds available to members on the LGIM funds platform are passive funds. The Trustee regularly compares the performance and charges to make sure they remain competitive. Investment management fees are disclosed to members in materials distributed each autumn as part of the decisions process.

Transaction costs consist largely of the cost of buying and selling assets, which vary from fund to fund and from day to day. Average dealing cost in the Plan over the calendar year to 31 December 2019 was 0.1%. The highest spreads were in the LGIM Global Emerging Market Index Fund and the LGIM Pre-Retirement Fund, because of the nature of the assets held in those funds. However for all LGIM funds this already reflected in the AMC applicable to each fund.

### 03.02 Administration Charge

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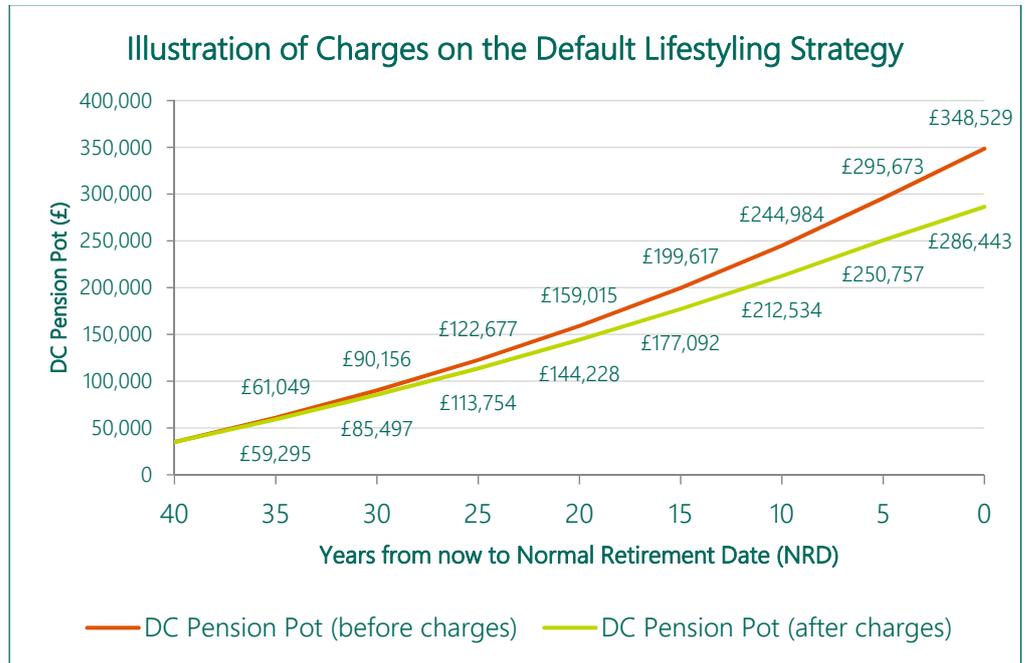
There is also an annual administration charge of 0.3% of a member's fund value up to a maximum of £250 which is deducted from the members' funds. McKinsey & Company Inc. UK (the "Company") covers any shortfall between the total member administration charge and the cost of running the Plan which adds considerable value to members.

### 03.03 An illustration of the charges levied on members

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Below you can find an illustration of the effect of the Total Expense Ratio costs met by members on an example Pension Pot over time.

# Charges and transaction costs continued continued



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

- The Plan's default investment option strategy (as detailed in section 2) – c.38% of members have investments in this option;
- An initial Pension Pot of £35,000 – which was the average pot in the period
- Contributions of 12% throughout the period, on earnings of £35,000 p.a. (increasing at 2.5% p.a.)
- Investment Returns are estimated as 4.80% p.a. for the default Balanced Lifestyle Fund (in which all monies are invested up to five years to go) and 2.37% pa in the LGIM Cash Fund (funds are gradually switched into this fund in the five years leading up to retirement). Average return after charges of 4.75%.
- Inflation of 2.5% p.a.

Illustrations for all of the Funds available to members in the Plan are shown in Appendix B of this Statement.

## 03.04 What are the assumptions based on?

In preparing these illustrations, the Trustee has had regard to:

- The Occupational Pension Schemes (Scheme Administration) Regulations 1996;
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018;
- The Pensions Regulator's Code of Practice number 13 on 'Governance and administration of occupational trust-based schemes providing money purchase benefits'; and
- The Pensions Regulator's quick guide to the Chair's Statement and the Technical Appendix.

# 04 Core financial transactions

## 04.01 Assessing Core Transactions

During the year the Trustee ensured the requirements of Regulation 24 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 were met and that the Plan's core financial transactions were processed promptly and accurately by:

- having an agreement in place with the Plan administrator committing them to defined service level agreements ("SLAs"). This covers, amongst other matters, the accuracy and timelines of all core financial transactions;
- having all service providers report on their performance against the agreed service levels as a means of monitoring the Plan's requirements are being met and to cover what they did to ensure no issues arose; and
- having the Plan auditor independently test a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

The core financial transactions include:

- **The investment of contributions** - The Plan's administrator monitors the payment of contributions by the Employer to the Plan, ensuring that these are paid within statutory timescales. Any occurrence of payment outside these timescales is reported directly to the Trustee and appropriate action taken. The settlement of all DC funds is actioned promptly by the administrator and the Trustee monitor the service standards of the Plan's administrator.
- **The transfer of assets relating to members into and out of the Plan** - Comprehensive records of individual members' contributions and fund values are maintained by the Plan's administrator and reconciled. Investments are carried out within five working days of receipt. Investments withdrawn or transferred to another scheme within 12 working days following receipt of all relevant paperwork, subject to any investigations required where there is evidence of a pensions scam. The Compass Special Situations ("COSS") fund trades quarterly and so trades in this fund are implemented on a quarterly basis. Members are regularly reminded that COSS Fund investments take longer to sell than funds on the L&G Platform.
- **The transfer of assets relating to members between different investments within the Plan**; – Transfers between Plan investments take place annually in December and are accomplished as quickly as possible: in a matter of days in respect of the funds on the LGIM Platform, and by the end of the quarter in which contributions are received in the case of the COSS Fund.
- **Monitoring of bank accounts** - a dedicated contribution processing team and four eyes checking of investment and banking transactions.
- **Payments to members** – All payments out of the Plan in respect of members benefits are made in line with standard checks and agreed processes and authorisation levels to ensure any payment made is calculated correctly and in line with the Plan rules and legislation and also complies with HMRC rules and guidance. In addition every effort is made to check for incidents of pension liberation.

Noting the requirement for accurate member data to process contributions and payments correctly, the Trustee takes steps to continually review and correct any problems with the member data which is held by the Plan administrator. This is reported each year to the Regulator in the online return.

## 04.02 Administration

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The Trustee has been closely monitoring the administration function to ensure members get the best service possible in order to provide value for members. Accordingly the Trustee regularly reviews service providers as a best practice.

The administration services provided in the period covered by this statement were carried out by Capita. However in line with the Trustee's practice and in view of the level of member complaints that had been received, an extensive tender exercise was carried out to test whether the Plan was receiving the best service possible. The result of the tender exercise concluded that an improved service could be obtained by switching administrator and, as a consequence XPS Pension Group were appointed to take over the service from Capita with effect from 1 June 2020.

In order to ensure that the administration services were transferred smoothly with no disruption to members, the transfer included a lengthy handover period. The Secretary to the Trustee continues to carry out regular project meetings with the new provider to monitor the quality and levels of service received and ensuring that the financial transactions, which are important to members, are dealt with promptly and accurately. Enhancements to online functionality will also be rolled out in the second half of 2020.

## 04.03 COVID-19

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The COVID-19 global pandemic has led to significant disruption for everyday lives. This has fed through into investment markets and will have had a significant impact on members' benefits.

The year to date has seen significant levels of volatility as markets continue to evolve and react to developments. For example, in March 2020, markets suffered their biggest fall since 2008. However, markets then rebounded strongly in the next few months to recoup large parts of those losses. We can expect further volatility as the UK emerges from lockdown and businesses begin to adjust the post COVID-landscape, especially against the fears of a possible second wave.

It is important to note that members are unlikely to have permanently lost money during this volatility. Some may have disinvested their funds during depressed market conditions or made changes to their fund choices. But where money remains invested and considering that members are long-term investors, the chances are that markets will rise again in the future. However members should be aware that there is likely to be sustained periods of volatility in the short to medium term which could have meaningful consequences on their retirement planning.

The Trustee board carried out an extensive assessment to ensure that they could still effectively carry out their duties to govern the Plan. This included seeking assurances that all providers were able to maintain their services to a satisfactory degree while in the unprecedented situation of lockdown.

The Trustee board reviewed the Plan risk register as well as working through a checklist recommended by the Regulator to ensure that all services remained effective and issued a communication to all members around the effects of market volatility and to increase awareness of cases of Pension Scams.

The Compass Special Situations fund invests in more complex assets and therefore at times of market volatility can be subject to strict notice periods or even suspend trading (as detailed to members in the fund literature). The Trustee has made best endeavours to both meet

statutory transfer deadlines and to minimise the difficulties in the current situation in order to process member's requests to transfer. The Trustee board, with assistance from the Company also took steps to manage the consequences for those members that had already requested a transfer as the effects of the pandemic hit. This included an additional check that members still wished to proceed, given the drastic change in circumstances.

# 05 Value for Money for Members

## 05.01 Assessment of Value

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

The Trustee has concluded that the Annual Management Charges and transaction costs shown in this statement represent good Value for Money ("VfM") having considered the following elements:

- the **processes that are in place** to ensure the efficient administration and governance of the Plan (which include those explained in the 'Core financial transactions' and the 'Knowledge and understanding of the Trustee');
- the **returns achieved by the investment funds** compared to the expenses levied that are met by members (as set out in this Statement) are VfM;
- the **type and range of investment options** and retirement choices offered to members target the most popular retirement choices and that a range of self-select funds cover a broad range of asset types. The Trustee regularly monitors both the performance and appropriateness of the funds and can take action to make changes when required. Each year, the Trustee devotes a meeting to member investment choices and how members' funds are invested. The Trustee discusses whether it is satisfied that investments offered and communications concerning those investments are appropriate and offer members the opportunity to maximise the value of contributions to the Plan;
- the **quality of communications** and other services provided to members on an annual and ad-hoc basis which are provided by the Plan's administrator within the legal timescale; and
- The **Plan is a non-contributory** defined contribution pension Plan. Each active member's employer contributes 12% of the member's earnings, up to £10,000, each year. Therefore the Company pays directly for most services, with the exception of a small administration charge on members of 0.3% of a member's fund value (held in the Plan as at 31 December each year) capped at £250.

## 05.02 Service Providers

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In addition to assessing the costs charged by service providers, the Governance and Administration Sub-Committee and the Trustee's Secretariat keep providers' service levels under review. As noted above the Trustee carried out an extensive tender exercise to secure the best administration service, to support the goal of providing value for members. The tender exercise concluded that an improved service could be obtained by switching administrator and, as a consequence XPS Pension Group were appointed to take over the service from Capita.

The Trustee's Secretariat continues to hold regular meeting with the new administrator and Ross Trustees Services Limited acting as a professional trustee in order to ensure that all services continue to meet the standards set by the Trustee.

# Value for Money for Members

continued

## 05.03 Communications

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Good member communications are crucial to achieving good value. The Trustee's Secretariat participated in efforts by the Company to improve communications, including web-based communications, to active members, and worked with service providers to introduce where possible more user-friendly on-line communications for the membership.

This included issuing announcements via email to allow for the effects of the Covid-19 situation.

As a further example the Trustee reminds all members annually whether they are invested in the default strategy and stresses the importance of reviewing their investments on a regular basis to make sure their investment choices still remain appropriate to their needs.

## 05.04 Flexibility - accessing benefits

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The Trustee offers members who meet the conditions under legislation the option to take up to two Uncrystallised Funds Pension Lump Sums per year.

The benefits of membership include (amongst other things): the design of the default arrangement and how this reflects the interests of members in matching the investment profile to their desired retirement choice.

Assessment of value for members is an ongoing process and the Trustee undertake a review each year to ensure the Plan continues to offer value and any changes in legislation, market conditions or member views are reflected for benefits of members.

# 06 Trustee Knowledge and understanding

## 06.01 Knowledge and understanding of the Trustee

The Trustee Board's relevant knowledge and understanding has been considered during the year and it has complied with the knowledge and understanding requirements in section 248 of the Pensions Act 2004.

The directors bring a broad range of skills and experience in finance, investment, communications, human resources, payroll, administration, and organisational development to their roles. They are fully conversant with the Plan's documentation. Copies of these documents are held on a secure online repository ensuring these can be accessed by the Trustee directors at any time for reference.

### 06.01.01 Trustee Effectiveness

In June 2019 the Trustee carried out a self-evaluation to measure the effectiveness of the Trustee board and to identify any gaps in knowledge or areas of concern. The Trustee directors were asked to complete a questionnaire divided into three categories; Board Effectiveness, Behaviours, and Trustee Knowledge & Understanding. The overwhelming majority of individual responses as well as the overall average scores were very positive implying that in the Trustee's opinion the Board is currently being run, and the Trustee is carrying out its duties effectively.

### 06.01.02 Trustee Training

In-house training is offered, use of TPR toolkit modules is mandatory, and directors attend external seminars and updates. A log of director participation in training is maintained by the Plan Secretary, and directors are regularly polled regarding the training that they would find most valuable. The Plan's legal advisor provides in-meeting training on new legislation and literature published by TPR relating to its Codes of Practice, in particular Code of Practice no 13.

The Trustee Board had four training sessions in the period covered by this report.

- Q1: MIO Risk Management
- Q2: New ESG Requirements
- Q3: Trustee Toolkit - Module 3: Running a Scheme
- Q4: Trustee Toolkit - Module 4: Pensions Law

The Trustee also makes use of a team of expert advisers. Investment advisers, funding advisers, representatives from the third party administrator, and other experts, including legal advisors, regularly attend meetings of the Trustee board.

In addition, the Trustee board has included an independent professional director since 2012 in order to supply specialist knowledge. As mentioned in last year's statement, Ross Trustees Services Limited were appointed to the Trustee board (in February 2019) to carry out this role. The Independent Trustee Director and the Plan's Secretary communicate frequently to facilitate compliance with best practice and the smooth administration of the Plan.

As demonstrated by the trustee evaluation exercise and as a result of the training activities which have been completed by the Trustee directors, both individually and collectively as a board, along with the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enable the Trustee to properly exercise its functions as the Trustee of the Plan.

# 07 Conclusion

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“Overall, the conclusion is that the Plan is continuing to deliver value for money to the members”

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The annual production of this Statement provides members with a narrative of how the Trustee look after members’ interests, especially in the areas of the five key elements within this Statement listed below.

- > Charges and transaction costs
- > Core financial transactions
- > Providing value for members
- > Trustee knowledge and understanding

The Trustee continues to monitor these key areas and report to members both via the annual Chairman’s Statement and other communications as appropriate. In conclusion, with the continual monitoring and the reviews detailed here, I am pleased to be able to submit this report in accordance with the Chair’s Statement requirements, in the belief that the Plan was operated and governed appropriately during the reporting period.

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## **Adoption**

Approved and adopted by the Trustee of the McKinsey & Company Inc. UK Additional Plan on 22 July 2020

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# Appendix A

## Statement of Investment Principles

### 1. Introduction

#### Purpose of the Statement

McKinsey & Co Inc (UK) Pensions Trustees Limited (the "Trustee") of the McKinsey & Company, Inc. UK Additional Plan ("the Plan") has prepared this Statement of Investment Principles ("the SIP") in accordance with the Pensions Act 1995 ("the Act") as amended and the Occupational Pension Scheme (Investment) Regulations 2005 as well as the principles recommended by the Myners Code. It supersedes the previous Statement of Investment Principles, dated May 2017.

It supersedes any previous SIP and reflects the investment policy agreed by the Trustee in respect of assets covering Defined Contribution assets.

This SIP will be reviewed at least every three years or immediately after any significant change in investment policy. Before preparing this SIP the Trustee has:

- Obtained and considered the written advice from the Plan's Investment Consultant, XPS Pensions Group, who is suitably qualified through ability and experience and has appropriate knowledge.
- Consulted the employer.

This document describes the investment policy of the McKinsey & Co Inc (UK) Pension Trustees Limited (the "Trustee") in respect of the McKinsey & Company, Inc. United Kingdom Additional Plan (the "Plan") and is issued by the Trustee to comply with Section 35 of the Pensions Act 1995 as amended by Pensions Act 2004 and Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 SI 2005/3378.

The Plan's Principal Employer is McKinsey & Co Inc United Kingdom (the "Principal Employer").

Copies of this document have been provided to the Principal Employer, the Plan's Investment Advisers and the Plan's Investment Managers. Copies are available to members of the Plan on request.

#### Plan Details

The Plan is a defined contribution occupational pension scheme operated for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. All the benefits it provides are based on the accumulated funds in each member's Retirement Account and there are no guarantees of performance.

*The Plan is a Registered Pension Scheme for the purposes of Finance Act 2004.*

#### Advice and Consultation

Before preparing this statement, the Trustee has sought and considered advice from the Plan's Investment Advisers. The Trustee has also consulted the Principal Employer concerning the contents of this statement.

#### Investment Powers

The investment powers of the Trustee are set out in the Trust Deed and Rules at clause 13. This statement is consistent with those powers.

The Trustee sets general investment policy following advice from its appointed Investment Advisers. It's appointed Investment Managers take responsibility for day-to-day investment decisions, subject to regular review and monitoring.

### Investment Expertise

The Trustee is satisfied that the Plan's Investment Advisers and Investment Managers are qualified (in their respective areas of responsibility) to advise on financial matters and have appropriate knowledge and experience of the management of the investment of pension schemes, such as the Plan.

### Review of the Statement

The Trustee's policy is to review this statement at one formal meeting in each calendar year and immediately following any significant changes in investment policy.

## 2. Investment Advice and Management

### Investment Advisers

The current investment advisers are XPS Pensions Group ("XPS") and MIO Partners EU Limited ("MIOEU")(and together the "Investment Advisers").

XPS advises primarily in relation to passive choices offered to members. XPS is remunerated on a time cost basis. The Trustee believes that this method of remuneration is appropriate because it enables XPS to provide necessary advice and information as needed by the Trustee and because the level of advice required can be variable.

MIOEU (which is regulated by the Financial Conduct Authority) advises solely in relation to Compass Offshore Special Situations PCC Limited ("COSS") and its respective share classes that are made available as investment choices for members. MIOEU is a wholly owned subsidiary of McKinsey & Co, Inc as are the Trustee and MIO Partners Inc. ("MIO").

MIO is the Investment Manager of COSS which is offered as the active investment choice to members of the Plan and of other pension plans for employees of McKinsey & Co, Inc affiliates. MIO is registered as an investment adviser with the U.S. Securities Exchange Commission.

The Trustee has considered the conflict of interest that is posed by the appointment of an in-house investment adviser and an in-house investment manager (on the advice of an in-house investment adviser). The Trustee has determined that any real or potential conflict arising from the use of internal investment advisers and managers does not result in a detriment to the members and beneficiaries of the Plan. This is in part because MIOEU and MIO are not, and are not intended to be, profit centres, but have as a primary purpose providing investment products that seek maximisation of risk-adjusted investment return for pension plans sponsored by McKinsey, including Plan participants, and current and former McKinsey Partners that invest in MIO managed products and also because the Trustee believes that MIOEU and MIO offer a resource which should be available to all McKinsey employees, not just Partners.

McKinsey & Co, Inc. (not the Trustee) pays a portion of the operating expenses and certain other expenses of MIOEU. MIOEU does not currently charge the Plan for its advice.

MIO (and the other Investment Managers) are remunerated by receiving a fee expressed as a percentage of the Plan's assets under management and this includes investment management and custodian charges. Broker commission charges and other transaction services are paid in addition and are deducted from the funds managed. Details of the fees are set out in the Appendix. MIO's charges are limited to the costs it incurs in the management of the funds with no profit element. The Board of Directors of MIO monitors MIO's operation costs and the fees charged to investors in MIO managed products to satisfy itself that the costs are appropriate.

### Investment Managers

Two investment managers are currently appointed to manage the investment choices offered by the Trustee: MIO and Legal & General Investment Management Limited ("LGIM") (and together the "Investment Managers").

LGIM is authorised by the Financial Conduct Authority. MIO is exempt from authorization or otherwise not required to be authorized by the Financial Conduct Authority.

The Trustee believes that the method of remunerating the Investment Managers (described above) is appropriate as it provides an incentive for the active manager to maximise returns whilst adhering to a level of risk appropriate for Plan members.

It is acknowledged by the Trustee that fees for active managers are significantly higher than those of their passive counterparts but the Trustee accepts that this reflects the nature of the management and associated objectives.

## 3. Investment Policy

### The Plan

The main characteristics of the Plan that are relevant to the development of an appropriate investment strategy are as follows:

- The current population of the Plan is young, with a majority of members under the age of 45, and few over the age of 55.
- The Plan provides defined contribution benefits for members. The assets of the Plan are attributed to members' Retirement Accounts, which are used to purchase benefits for members age 55 and over at the member's request.
- When benefits come into payment it is the Trustee's policy to purchase an annuity contract or policy or other pension product (such as a draw-down product) in the name of the member to discharge their obligations under the Plan.
- Assets that have not been allocated to members' Retirement Accounts are allocated to a Reserve Account. It is the Trustee's policy to invest all of the Reserve Account in a cash fund.

## Trustee objectives and principles

The Trustee's objective is to offer members an appropriate range of investment choices to suit different risk appetites and tolerances that includes both actively and passively managed funds. This gives members the opportunity to choose investments that reflect their own individual preferences.

In choosing which funds to offer, the Trustee applies the following principles:

At least one broad-based actively managed fund should be offered in order to give members opportunity for value-added investment return beyond what is available tracking relevant bond or equity markets. This can be accomplished through investment in a portfolio that includes non-traditional asset classes, so long as the risks attached to these investments are diversified and the portfolio as a whole is managed in a manner appropriate for pension scheme members.

- Investment risk and volatility in an actively managed fund for members should be kept to prudent levels; however, a degree of investment risk and volatility should be tolerated because pension scheme members are long-term investors who require growth overtime and as previously noted Plan members are predominantly under age 45.
- A range of passive funds in core asset classes should be offered so that those members who do not wish to participate in an actively managed fund, or who wish to construct their own portfolio, may do so.
- An appropriate passive offering will include a range of index funds representing each of the major traditional asset classes, including UK and global equities, and both fixed and inflation-adjusted gilts. It should also include at least one blended fund that allows for diversified passive holdings in traditional asset classes.
- The Trustee encourages members to choose their investments. Members who are likely to choose an annuity at retirement are encouraged to adjust the balance between growth and risk in their portfolios moving towards less volatile investments as they come closer to retirement age, or to choose the Lifestyle Active Portfolio which makes automatic adjustments to asset allocation as they age.
- The number of funds (both active and passive) available to choose from should be appropriately diverse but it is not in members' interests to offer too many funds as this can discourage members from making investment choices.
- All members should be encouraged to invest in their pensions and where there is evidence that members require or would be more comfortable investing in funds conforming to particular religious or ethical preferences, the trustee will consider offering such funds.

Taking into account its objectives and these principles, the Trustee has chosen COSS (its dollar, euro, sterling and multi-currency denominated share classes) as its active fund choice and a selection of LGIM funds as its passive funds choice.

## General Policy on compliance with Section 36 of the Pensions Act 1995

The Trustee's policy is to review regularly the investments over which it retains control and to obtain written advice about them when necessary. The written advice will consider suitability of the investments taking into account the needs of the members and the composition of the portfolio as a whole, the principles within this Statement and compliance with

relevant legislation. The Investment Advisers consulted will have the knowledge and experience required under Section 36(6) of the Pensions Act 1995.

## Default Fund

The Trustee provides a default fund that will be used in the event that a member fails to make choices regarding the funds in which he or she wishes to invest.

From 1 December 2014, the default option comprises passively managed funds managed by LGIM (the "Default Portfolio"). Until 5 years before the member's designated retirement date, the Default Portfolio will be invested in a fund composed of a 60% holding in the LGIM World Equity Fund, a 20% holding in the LGIM All Stocks Gilts Index Fund and a 20% holding in the LGIM All Stocks Index-Linked Gilts Index Fund (the "Balanced Fund"). As the member approaches retirement, starting 5 years prior to his or her designated retirement date, the Trustee has directed its administrator to annually reduce the Balanced Fund allocation, and re-allocate assets gradually to the LGIM Sterling Cash Fund (the "Cash Fund"), until at the designated retirement date, the investment will be 75% in the Balanced Fund and 25% in the Cash Fund. This enables members to use the Cash Fund for the provisions of a tax free lump sum at retirement with the remainder being invested for growth.

The Balanced Fund in the Default Fund Option will be switched into Balanced Hedged Fund as retirement date is approached to mitigate currency risk. This change does not meet any of the 'listed change' criteria. The Progression between the two funds is set out in the appendix.

The Trustee believes that a gradual partial allocation to the Cash Fund over a period of years approaching retirement is appropriate because the member is likely to wish to take some income in lump sum form at retirement. However, it is likely to be in the interests of most members to continue to invest the remainder of his or her fund for growth, even at retirement date, because members are likely to wish to take some form of income drawdown rather than an annuity. Members will be reminded at least 7 years before their designated retirement date to consider switching from the Default Portfolio if they wish to purchase an annuity at retirement date and to reassess the suitability of the retirement date where appropriate. The assumed retirement date for members who do not choose a retirement date will remain their 65th birthday.

## Range of Funds

A list of the funds currently offered to members for investment of their Retirement Accounts appears in the Appendix.

Members may invest in any of the funds listed in the Appendix, or in a Pre-Select Portfolio consisting of an actively managed fund or blend of passive and active funds chosen by the Trustee. There are currently three Pre-Select Portfolio choices in addition to the Default Fund. When a member participates in a Pre-Select Portfolio, he or she must invest all of their account in that Pre-Select Portfolio.

## Environmental, Social and Governance (ESG)

The Trustee has considered its approach to ESG investments and does believe there can be financially material risks and opportunities relating to ESG. Reflecting this, the Trustee has delegated the ongoing monitoring and management of

ESG considerations to the Plan's investment managers. The Trustee encourages the Plan's investment managers to take into account ESG considerations within their decision-making. The Trustees understand that MIO does not expressly take ESG issues into account as part of its investment considerations regarding the operation of COSS.

The Trustee will take the potential for ESG issues to lead to financially material risks and opportunities into account in any future investment manager selection exercises for the underlying investments that the Plan's makes. Further to this, the Trustee will where possible monitor the ESG integration practices of the managers they are invested in to ensure they remain appropriate and in line with the Trustee's requirements as set out in this Statement.

The exercise of rights (including voting rights) attached to the Plan's investments is carried out by the investment managers.

The Trustee's policy is that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

## 4. Risk and Diversification

### Risk Management

The Trustee manages risk in a number of ways;

It ensures that members are offered access to a range of investment funds across different asset classes and markets. This allows members to select the level of risk versus return appropriate to a member's individual attitude to risk. It also enables members to diversify their investments. The Trustee believes that it is important that the risks associated with each investment fund are made as transparent as possible and this is done via web-based materials, which include the annual Investment Decision Guide and an annual investment seminar which all members are invited to attend. The Trustee believes that the greatest risk to members over the long-term is that the real purchasing power of pension assets will not be maintained. It recognises that passive fund options often offer real value for money and suit many members but it encourages members to diversify their investments. Members are encouraged to review their investment choices carefully as they approach retirement. The Default Portfolio provides a modified life-styling option. The Default Portfolio is not specifically designed for a member who wishes to purchase an annuity and so if they do they should consider an alternative strategy that would reduce the risk in his or her portfolio in the years leading to retirement.

The Investment Advisers, XPS and MIOEU, monitor fund performance and regularly review the funds on offer. XPS is primarily responsible for reviewing the passive funds and MIOEU reviews the active funds, which currently is COSS. XPS and MIOEU are invited to Trustee meetings to report on investment performance and advise on the continuing suitability of the range and type of investment funds offered to members.

MIO sets the benchmark and investment mandate (as detailed in a set of investment guidelines established by the Board of Directors of MIO) of the Fund at a level of risk that it deems appropriate for individual long term oriented investors. MIOEU reports regularly to the Trustee on the performance of COSS and MIO notifies the Trustee of any substantial changes in asset allocation or strategy.

LGIM and MIOEU are responsible for managing counterparty risk for the respective funds that they manage and do this by reviewing or monitoring counterparty arrangements of the underlying managers of the various funds.

Fraud and dishonesty risk is managed through restrictions on authority to transfer and deal with cash and transfers.

### Realisation of Investments

The passively managed investment choices, including the Default Portfolio, are highly liquid. However, COSS is less liquid. In difficult markets, where there is a cost to exit, that cost will be passed on to the exiting member and in extremely difficult conditions the member may be prevented from exiting in order to protect other investors. The Trustee believes the level of risk of non-liquidity in these funds is acceptable in an investment that is expected to be long term in nature so long as liquidity risks are adequately disclosed to members.

### Risk Measurement

The Trustee recognises that when investing in pooled funds the measurement of risk will pertain to the underlying levels of risk inherent in these funds. The Trustee will monitor the fund risk by reviewing on an on-going basis the historical fund statistics published by the Investment Managers and in the case of MIO through periodic reporting on risk management.

## 5. Pension Decumulation

### Use of member's retirement fund

The Trustee's policy is to ask the administrator to provide information regarding the member's options at retirement. A member's Retirement Account may be used to purchase an annuity or other pension product for the member at retirement, or at any later time when requested by the member. The choice of provider is determined by the member. The member will be informed of the availability of guidance under the Pension Wise Service as required by legislation. No independent financial advice is provided to members nearing retirement.

## 6. Adoption

Signed on behalf of the Trustees:

Signature:



Name:

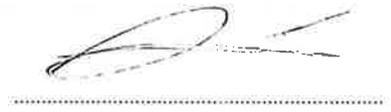
V J DARCH

Date:

13/12/19

Signed on behalf of the Investment Consultant:

Signature:



Name:

.....André Kerr.....

Date:

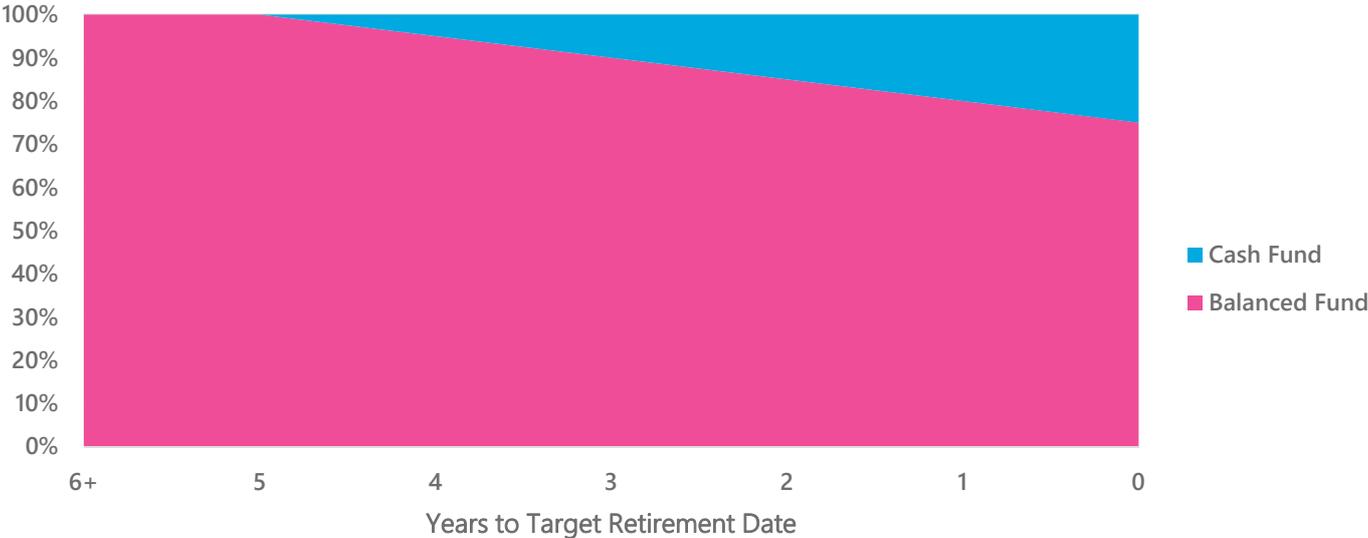
.....December 2019.....

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# Appendix – DC Section Investment strategy

## Default Fund Option

The Default Fund Option of the DC Section of the Scheme is summarised in the chart below.



Until 5 years before the member's designated retirement date, the Default portfolio will be invested in a Fund composed of a 60% holding in the LGIM World Equity Fund, a 20% holding in the LGIM All Stock Gilts Index Fund and a 20% holding in the LGIM All Stocks Index-Linked Gilts Index Fund (The 'Balanced Fund'). As the member approaches retirement, commencing 5 years prior to designated retirement date, the Trustee has directed its administrator to annually reduce the Balanced Fund allocation and re-allocated assets gradually to the LGIM Sterling Cash Fund (the 'Cash Fund') until the designated retirement date, the investment will be 75% in the Balanced Fund and 25% in the Cash Fund. This enables members to use the Cash Fund for the provision on a tax free lump sum at retirement, with the remainder being invested for growth.

Balanced Funds in the Default Fund Option will be switched into Balanced Hedged Fund as retirement date is approached to mitigate currency risk. This change does not meet any of the 'listed change' criteria. The Progression between the two funds is set out as below:

Years to retirement	5+	4	3	2	1	0
Balanced Fund	100%	76%	54%	34%	16%	0%
Balanced Fund (hedged)	0%	19%	36%	51%	64%	75%
Equities hedged in balanced fund	0%	20%	40%	60%	80%	100%
Cash	0	5%	10%	15%	20%	25%

## Other Pre-Select Options

Further to the default offering, the Scheme also allows for member investment in the following three additional Pre-select Funds, each with an individual asset allocation strategy as below:

Fund	Allocation	Management Charge (pa)
Moderate Active Portfolio	Compass Offshore Special Situations PCC Limited (Sterling Class) - 70%, Index-Linked Gilts-15%, Cash-15%	5.07% p.a.
Balanced Portfolio	World Equity – 60%, Index-Linked Gilts – 20%, Fixed Interest – 20%	0.16% p.a.
Lifestyle Active Portfolio	Compass Offshore Special Situations PCC Limited (Sterling Class) -100%  <b>Last 7 Years pre-retirement:</b> Pre-retirement – 75%, Cash – 25%	7.20% p.a.*

## Self-Select Funds

Individual members may elect to follow their own investment strategy by investing in a range of funds. The Trustee has made the following funds available to members:

Asset class	Manager and fund	Benchmark/Objective	OCF (pa)
Passive Gilt Fund	LGIM All Stocks Gilt Index	Track the performance of the FTSE Actuaries UK Conventional Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	0.10%
Passive Index Linked Gilt Fund	LGIM All Stocks Index Linked Gilt Index	Track the performance of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index to within +/-0.25% p.a. for two years out of three.	0.10%
Passive Equity Fund	LGIM Global Emerging Market Index	Track the performance of the S&P/IFCI Composite Global Emerging Markets Index (less withholding tax where applicable) to within +/-1.5% p.a. for two years out of three.	0.45%
Multi-Asset Class Fund of Funds	Compass Offshore Special Situations PCC Limited (all class)	- Composed of an absolute return component and an asset allocation component, intended to achieve positive returns regardless of whether equity or debt markets perform strongly or poorly.	0.93%* + 6.40%**  *AMC over past 5 years, currently 1%

		-The COSS is offered to members through the pre-select portfolios.	** example fees calculated using 2015 data
<b>Cash Fund</b>	LGIM Sterling Cash	The fund aims to perform in line with 7 Day GBP LIBID, without incurring excessive risk.	0.125%
<b>Passive Investment Grade Credit Fund</b>	LGIM Pre Retirement	-The benchmark asset allocation for the Fund is a composite of gilts and corporate bond fund, -The Fund's benchmark is kept broadly in line with the current pension annuity market investments for non-LPI linked annuities	0.15%
<b>Passive Equity Fund</b>	LGIM UK Equity Index	Track the performance of the FTSE All-Share Index (less withholding tax where applicable) to within +/- 0.25% p.a. for two years out of three.	0.10%
<b>Passive Equity Fund</b>	LGIM World Equity Index	Track the performance of the FTSE World Index (less withholding tax where applicable) to within +/-0.5% p.a. for two years out of three.	0.20%
<b>Passive Multi-Asset Fund</b>	LGIM Balanced Fund	Composed of 60% LGIM World Equity Index Fund, 20% LGIM All-Stocks Index-Linked Gilts Fund and 20% LGIM All Stocks Index Linked Gilts Index Fund	0.16%
<b>Passive Equity Fund</b>	LGIM HSBC Amanah Global Equity Index Fund	The Dow Jones Islamic market Titans 100 index. The fund will invest in equity securities, which meet Islamic investment principles, of companies in the index.	0.35%
<b>Passive Multi-Asset Fund</b>	LGIM Balanced Hedged Fund	Balanced Fund with Currency Hedging.	0.16%

# 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 Lifetime 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	39,981	39,713	21	166,779	150,603
2	45,074	44,499	22	174,718	157,076
3	50,282	49,357	23	182,834	163,648
4	55,606	54,288	24	191,132	170,319
5	61,049	59,295	25	199,617	177,092
6	66,615	64,379	26	208,292	183,968
7	72,306	69,539	27	217,162	190,949
8	78,124	74,778	28	226,231	198,035
9	84,073	80,097	29	235,503	205,230
10	90,156	85,497	30	244,984	212,534
11	96,375	90,979	31	254,677	219,950
12	102,733	96,544	32	264,587	227,478
13	109,234	102,194	33	274,720	235,121
14	115,881	107,930	34	285,081	242,880
15	122,677	113,754	35	295,673	250,757
16	129,626	119,666	36	306,504	258,754
17	136,731	125,668	37	317,231	266,357
18	143,995	131,761	38	327,829	273,528
19	151,422	137,947	39	338,271	280,234
20	159,015	144,228	40	348,529	286,443

## Assumptions

Real Terms Investment Rates (%)\*4.92% before charges (4.76%after)

Pension Pot Value at Start £35,000



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**Registration**

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**Authorisation**

Punter Southall Investment Consulting Ltd (FCA Register number 528774) and Xafinity Consulting Ltd (FCA Register number 194270) are both authorised and regulated by the Financial Conduct Authority (FCA) for investment business.