

# 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 2019

Prepared in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the "Regulations")

## 01.01 Default arrangement

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A copy of the statement of investment principles prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 is attached.

The trustees monitor performance of all funds each month and meet quarterly to discuss performance and any appropriate changes to funds. As part of both the continual and statutory review process, the trustees assess the Article 14 default strategy to ensure that it remains appropriate to members in order to provide the best outcome.

It was decided that members may be better suited by moving to Target Retirement Date (TRD) Funds. TRD funds allow for funds to be automatically life styled similar to the previous default option but the process will be directly applied by the fund manager in the fund make up and automatically adjusted based on a members "Target Retirement Date". For the default, this is set as age 65. Each TRD fund covers a period of 5 years to smooth the effect of lifestyle aim to provide growth with lower cost and therefore the TRD funds still meet the default objective of providing long-term growth potential without undue risk and at low cost.

### 01.01.01 Key Features

- Seeks to manage key risks that investors face over time, which include shortfall, longevity, volatility and inflation.
- Ensures a disciplined approach to asset allocation with strategic forecasts and rebalancing.
- Creates diversified portfolios with exposure to a broad range of cost-effective equity and fixed income asset classes.

The Underlying Funds may invest in a wide variety of asset classes, including equity and fixed-income securities of issuers anywhere in the world, including emerging markets investments, and including, among others, high yield, commodity, and real estate investments.

Each Fund's asset allocation will become more conservative as it approaches its target retirement date.

## 01.02 Core financial transactions

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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 four Scheme members, and transfers of members' assets between investments within the Scheme) have been processed accurately and promptly.

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.

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.

### 01.03 Charges and transaction costs

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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.

The default fund for Article 14 members is the target retirement fund for the year closest to a member's age 65. The annual management charge for all the target retirement date funds (irrespective of the target year) on the Article 14 default fund in 2019 is 0.085%.

All members pay an administration charge each year representing actual costs incurred by the Scheme. In 2019, administrative fees were \$135 per member.

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 2019, 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>2019 expenses</b>
Special Situations Portfolio	6.4%
Special Situations Enhanced-Liquidity (USD) Portfolio	4.5%

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. The two actively managed funds available to Article 14 members – the Special Situations Portfolio and the Special Situations Enhanced-Liquidity Portfolio – aim to achieve growth that is not correlated with a particular market (e.g. 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.

Investment management fees disclosed in respect of the Scheme's passively managed funds were as follows in 2019:

<b>Fund</b>	<b>2019 expenses</b>
Passive US Equities Portfolio	0.015%
Passive Non-US Equities Portfolio	0.06%
Passive US Bonds Portfolio	0.029%
Passive Inflation-Linked Bonds Portfolio	0.03%
Passive US Dollar Money Markets Portfolio	0.11%
Target Retirement (all years) Fund	0.085%

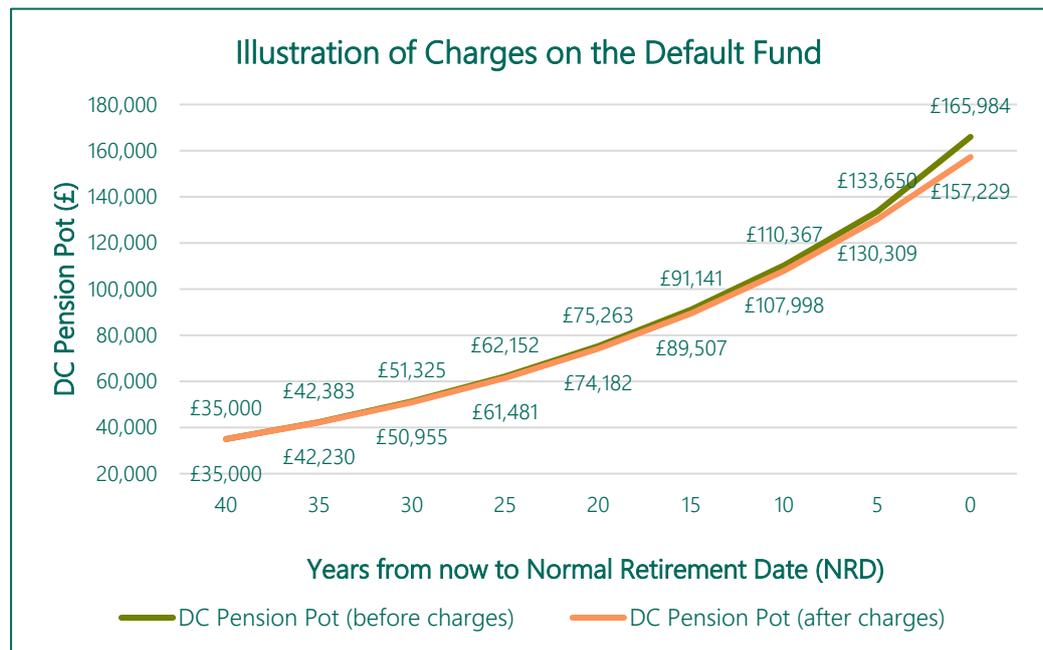
The trustees examine the value to members offered by all of the investment offerings annually. There also is an Administrative Committee with responsibility for administration of the Scheme, other than investments. That committee examines the value to members of administration costs and services.

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.

### 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.



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 6.50% p.a. based on the default strategy of Target Retirement Funds. As the charge of 0.085% remains the same whichever TRD fund you are invested in the projection would apply equally to TRD fund that is applicable to your circumstances.
- Inflation of 2.5% p.a.

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

#### 01.03.01 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.

#### **01.04 Trustee knowledge and understanding**

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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. The trustees receive in-house training supporting their work as trustees, and independent evaluation of their governance processes is undertaken.

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. One new trustee was appointed during the year and completed an induction course covering trust and pension law fundamentals. Their additional training is on-going. At trustee meetings, the trustees receive updates from legal counsel on relevant legal developments and from the investment advisor on investment matters.

The trustees also make use of other 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.

Signed for and on behalf of                      Date: 31 July 2020

The Trustees of the McKinsey & Company, Inc.

Profit-Sharing Retirement Plan by

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Christopher Leech, Chair of the Trustees



# Appendix B

## Projections

### Default Investment Strategy

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

Years from Now	Pension Pot (before Charges)	Pension Pot (after charges)
40	35,000	35,000
35	42,383	42,230
30	51,325	50,955
25	62,152	61,481
20	75,263	74,182
15	91,141	89,507
10	110,367	107,998
5	133,650	130,309
0	165,984	157,229

#### Assumptions

The illustration is based on the utilising any of the Target Date Funds. The exact cost will differ slightly depending on the underlying funds

Real Terms Investment Rates (%)\*6.415% before charges (6.50% after)

Pension Pot Value at Start £35,000

No further contributions are made